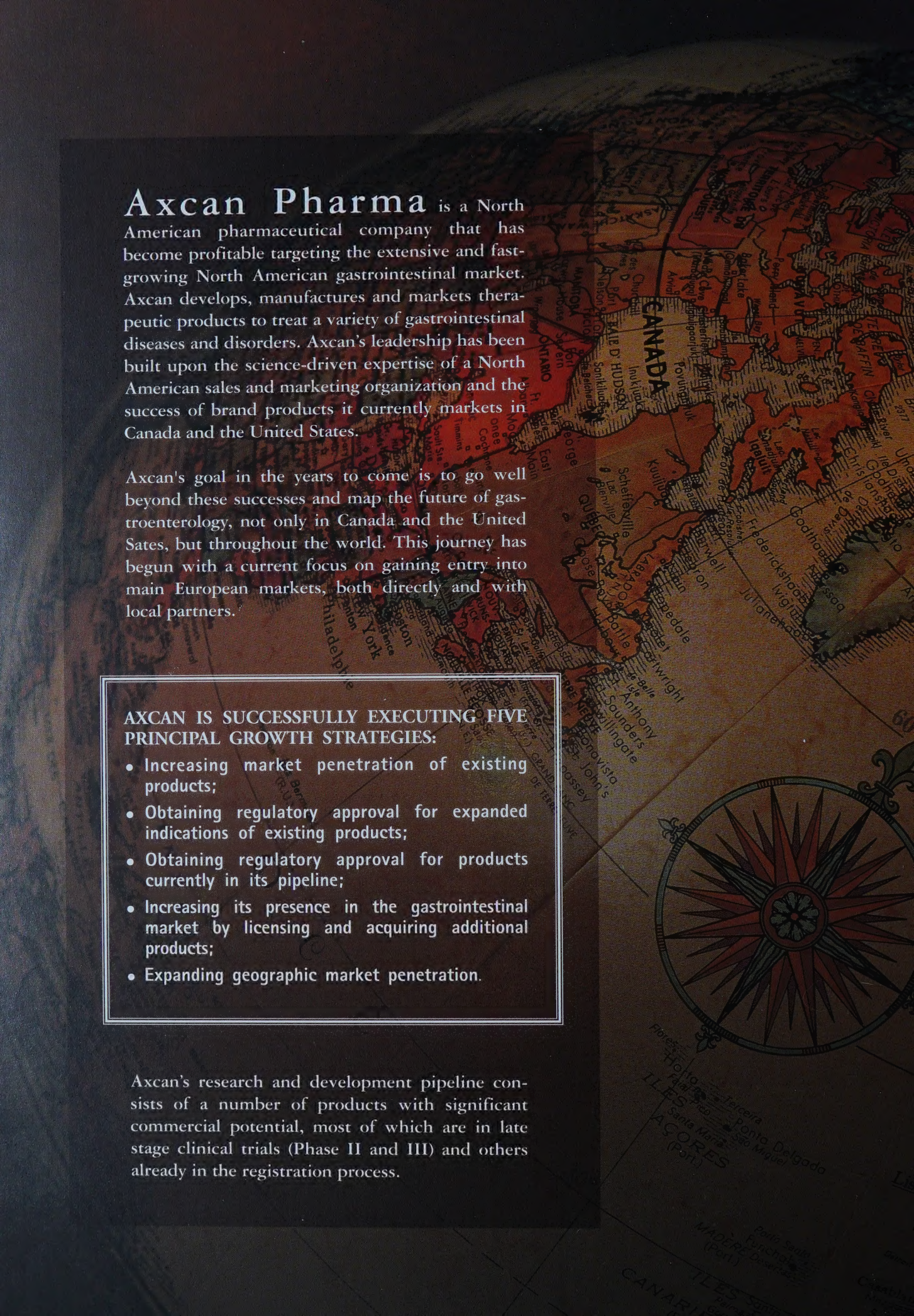
# Mapping the future of Gastroenterology around the world

Annual Report 2000

AXCAN PHARMA




# Axcan Pharma is a North American pharmaceutical company that has become profitable targeting the extensive and fast-growing North American gastrointestinal market. Axcan develops, manufactures and markets therapeutic products to treat a variety of gastrointestinal diseases and disorders. Axcan's leadership has been built upon the science-driven expertise of a North American sales and marketing organization and the success of brand products it currently markets in Canada and the United States.

Axcan's goal in the years to come is to go well beyond these successes and map the future of gastroenterology, not only in Canada and the United Sates, but throughout the world. This journey has begun with a current focus on gaining entry into main European markets, both directly and with local partners.

**AXCAN IS SUCCESSFULLY EXECUTING FIVE PRINCIPAL GROWTH STRATEGIES:**

- Increasing market penetration of existing products;
- Obtaining regulatory approval for expanded indications of existing products;
- Obtaining regulatory approval for products currently in its pipeline;
- Increasing its presence in the gastrointestinal market by licensing and acquiring additional products;
- Expanding geographic market penetration.

Axcan's research and development pipeline consists of a number of products with significant commercial potential, most of which are in late stage clinical trials (Phase II and III) and others already in the registration process.

# Axcan Pharma:
## Making a World of Difference in Gastroenterology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# Axcan is fast expanding in t

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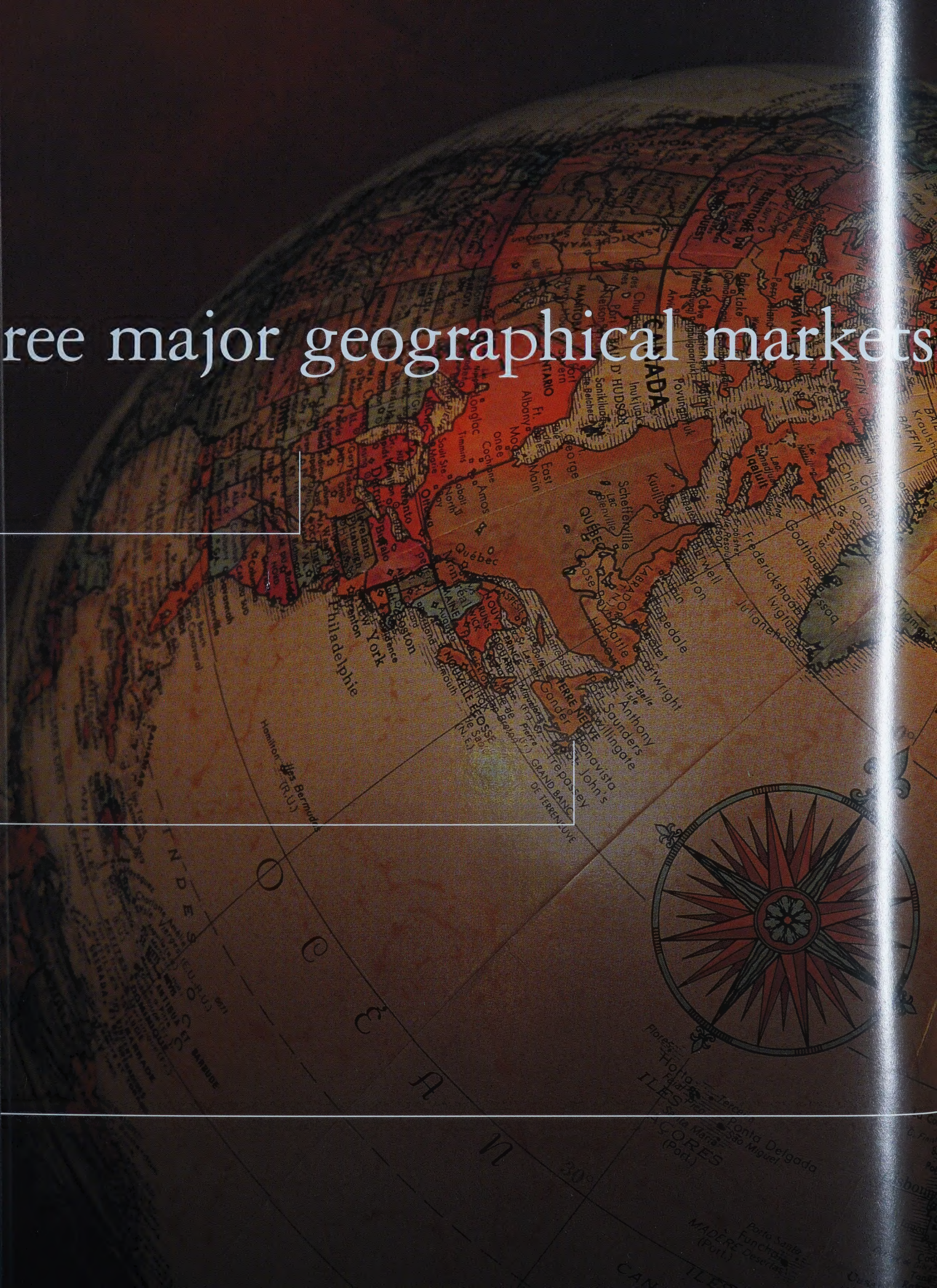
# ree major geographical markets



# Highlights of the Year

*Please note that all dollar amounts in this annual report are in US dollars, unless otherwise indicated*

**August 1999**

- The FDA asks Axcan to sell mesalamine (5-ASA) suppositories in the United States on a temporary emergency basis.
- Acquisition of Scandipharm, established in Birmingham, Alabama. Axcan becomes the first Canadian public pharmaceutical company with its own sales and marketing organization in the United States.

**October 1999**

- Acquisition of Schwarz Pharma Inc.'s 50% interest in Axcan URSO, LLC.

**December 1999**

- Issuance of 8,437,500 common shares at CDN $6.00 per share, providing gross proceeds of CDN $50.6 million.
- Private placement with Dynamic QSSP Fund, which subscribed for 100,000 common shares of Axcan at a price of CDN $6.41 per share for a total consideration of CDN $641,000.

**March 2000**

- Appointment of Mr. David W. Mims as Executive Vice President and Chief Operating Officer of the Company. Mr. Mims joined Axcan earlier in the year as a member of the Board of Directors.

**June 2000**

- Acquisition from QLT Inc. of PHOTOFRIN, the first product approved for photodynamic therapy.
- Divestment of Axcan's 50% interest in Althin Biopharm, a joint-venture active in hemodialysis, to Baxter Corporation.
- Completion of a US $40.1 million financing in the United States and listing on the NASDAQ National Market under the AXCA symbol.

**July 2000**

- Approval of PHOTOFRIN by the Medical Products Agency of Sweden for the palliative treatment of obstructive esophageal cancer and of obstructive endobronchial non-small cell lung cancer. PHOTOFRIN is also approved by the Italian and Irish health authorities for similar indications, bringing to 11 the number of European countries where the product is approved.
- Execution of a term sheet with Grupo Ferrer Internacional, S.A., a Spanish company based in Barcelona, for the potential distribution of PHOTOFRIN in Spain, Portugal and Greece, as well as in all Central and South American countries.

**August 2000**

- Signing of an exclusive five-year agreement with Diomed for the development and supply of 630 PDT diode lasers and optical delivery fibers to be used in photodynamic therapy (PDT) in conjunction with PHOTOFRIN.
- Appointment of Mr. Michael M. Tarnow, President and CEO of Huntington Venture, LLC, to the Board of Directors. Mr. Tarnow was formerly President and CEO of Merck Frosst Canada.
- Addition of Axcan to the TSE 300 Composite Index, comprised of 300 of Canada's largest public companies traded on the Toronto Stock Exchange.

**September 2000**

- Announcement of positive results pertaining to a Phase III clinical trial on PHOTOFRIN for the treatment of high-grade dysplasia associated with Barrett's Esophagus, a relatively common condition that results from prolonged acid reflux.
- Signing of a licensing agreement with the Children's Hospital Research Foundation, an operating division of Children's Hospital Medical Center of Cincinnati, Ohio, for a series of patented sulfated ursodeoxycholic acid compounds.
- Appointment of Ms. Liza Page Nelson, Managing Director of Investor Growth Capital, Inc., to the Board of Directors.
- Announcement of positive final results of the Phase III North American pivotal clinical trial on HELICIDE, a bismuth-based, single triple therapy for the eradication of *Helicobacter pylori*.
- Selection of Mr. Léon F. Gosselin, President and Chief Executive Officer, as Quebec Entrepreneur of the Year in the Health-Care/Life Sciences field in the privately sponsored Entrepreneur of the Year Awards program.

**January 2001**

- Approval, by the FDA, of CANASA mesalamine (5-ASA) suppositories, for the treatment of active ulcerative proctitis.

# Summary of Consolidated Financial Statements

## Data from the Consolidated Earnings Statement

**Fiscal years ended September 30**

| *in thousands of US dollars, except per share amounts* | 2000 | Growth | 1999 | 1998 |
|---|---|---|---|---|
| | $ | % | $ | $ |
| Revenue | 87,486 | 133 | 37,549 | 24,428 |
| Research and development expenses | 6,174 | 94 | 3,175 | 1,735 |
| Net earnings* | 4,940 | 394 | 999 | 254 |
| Net earnings per share* | 0.18 | 200 | 0.06 | 0.02 |
| Average number of shares outstanding | 26,575,475 | 65 | 16,111,545 | 15,665,221 |

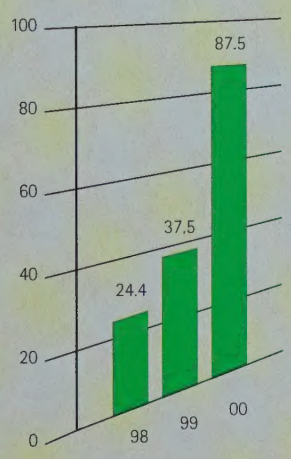
* from continuing operations

## Data from the Consolidated Balance Sheets

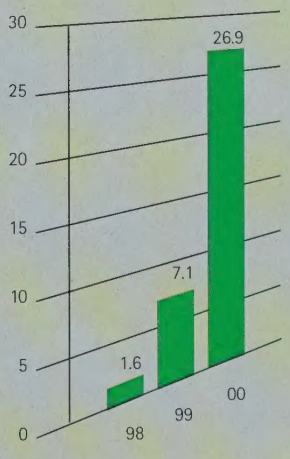
**As at September 30**

| *in thousands of US dollars* | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Total assets | 254,052 | 205,378 | 60,424 |
| Total liabilities | 92,322 | 146,841 | 12,802 |
| Shareholders' equity | 161,730 | 58,537 | 47,622 |

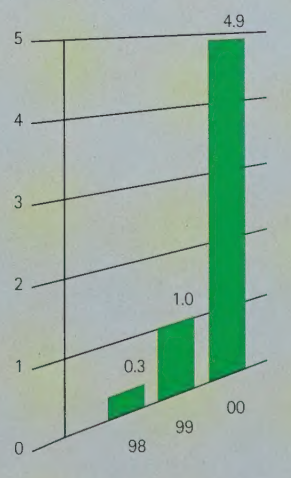
Revenue ($M)




EBITDA ($M)




Net earnings ($M)*




* from continuing operations

# 2000: A Year of Significant Achievements for Axcan Pharma

| GOALS | ACHIEVEMENTS |
|---|---|
| **Production** | **Production** — 2 of 2 fiscal 2000 objectives achieved |
| • Invest in new equipment to enhance and improve production. | • Acquired new equipment that increased production of suppositories for the US market, and augmented the levels of inventory in anticipation of Y2K issues. |
| • Develop and validate production procedures for future products. | • Developed and validated product procedures in compliance with HPB and FDA requirements for the main products sold in Canada and the United States. |
| **Research and Development** | **Research and Development** — Surpassed objectives set for fiscal 2000 |
| • Complete Phase III trials on HELICIDE and file a New Drug Submission with Canadian, American and European authorities. | • Announced positive Phase III results on HELICIDE. |
| • Submit a New Drug Application and seek approval to market CANASA mesalamine (5-ASA) suppositories in the United States. | • Submitted a New Drug Application for mesalamine (5-ASA) suppositories. |
| • Initiate studies on different indications for several products already marketed by Axcan. | • Initiated a Phase II study on the efficacy and safety of ULTRASE MT20 for the treatment of diarrhea associated with HIV-AIDS. |
| • Analyze interim study results on the use of URSO 250 for the prevention of the recurrence of adenomatous colorectal polyps. | • Disseminated Phase II study results on the use of URSO 250 for the prevention of the recurrence of adenomatous colorectal polyps. |
| • Complete Axcan's Phase II study on the use of URSO 250 for the treatment of primary hypercholesterolemia. | • Disseminated interim Phase II study results on the use of URSO 250 for the treatment of primary hypercholesterolemia. |
| | • Completed a Phase III study on the efficacy and safety of new formulations of ULTRASE for the treatment of pancreatic insufficiency in cystic fibrosis patients. |
| | • Announced positive Phase III results on PHOTOFRIN for the treatment of high-grade dysplasia associated with Barrett's Esophagus. |
| **Sales and Marketing** | **Sales and Marketing** — 2 of 3 fiscal 2000 objectives achieved |
| • Establish a therapeutic sales force in the United States to promote Axcan's product line to transplant and cystic fibrosis centers and to hepatologists. | • Created a two-tiered sales force comprised of 14 therapeutic sales representatives exclusively visiting cystic fibrosis centers, hepatologists and transplant centers, while the other sales representatives call on high-volume prescribing physicians. |
| • Increase product sales by at least 10% in the United States through our newly acquired sales force. | • Achieved revenue of $87.5 million, in comparison to $37.5 million in 1999, a 133% increase. |
| • Launch certain products in Poland through Bonne Santé and CZET Pharma. | |
| **Business Development** | **Business Development** — 1 of 2 fiscal 2000 objectives achieved |
| • Pursue licensing efforts for new gastroenterology products. | • Acquired PHOTOFRIN from QLT. |
| • Sign partnership agreements for the marketing of HELICIDE. | • Licensed LYM-X-SORB. |
| | • Licensed a series of sulfated patented ursodeoxycholic acid compounds. |
| | • Executed a term sheet with Grupo Ferrer for the potential distribution of PHOTOFRIN in Spain, Portugal, Greece, Central and South America. |
| **Finance** | **Finance** — 3 of 4 fiscal 2000 objectives achieved |
| • Achieve revenue growth, increase profit margins and earnings (before taxes). | • Achieved record revenue and earnings. |
| • Maintain disciplined management of cash securities and debt. | • Completed two major offerings to pay down debt generated by the acquisition of Scandipharm. |
| • Intensify Axcan's visibility and promote its potential in the North American financial community. | • Enlisted four new US shareholders (Wellington Asset Management, Investor AB, Perseus-Soros, Special Situations Funds). |
| • Obtain ISO 9001 compliance. | • Completed NASDAQ listing under the AXCA symbol. |
| | • Attained listing of Axcan in the TSE 300. |
| | • One US analyst initiated coverage of Axcan. |

# 2001 Goals

## GOALS

### Finance and Administration

- Pursue growth in revenue, profit margins and earnings.
- Intensify Axcan's visibility throughout the North American financial community.
- Secure additional financial analysts to cover Axcan.

### Scientific Affairs

- Obtain FDA approval of CANASA mesalamine (5-ASA) suppositories in the United States.
- Submit HELICIDE's New Drug Application for *Helicobacter pylori* eradication.
- Submit PHOTOFRIN's Supplemental New Drug Application for the treatment of high-grade dysplasia associated with Barrett's Esophagus.
- Submit ULTRASE's New Drug Application for the treatment of exocrine pancreatic insufficiency.
- Initiate the development of new formulations of ursodiol.

### Quality Assurance and Development

- Increase production capacity.
- Continue the ISO 9001 certification program.

### Sales and Marketing

- Establish new PHOTOFRIN treatment centers in Canada and increase the number of centers in the United States and Canada.
- Launch CANASA mesalamine (5-ASA) suppositories in the United States.
- Establish PHOTOFRIN distribution in key European countries.
- Increase our presence in Latin America.

### Business Development

- Acquire products or companies that will generate additional revenue in fiscal 2002 and beyond.
- Develop HELICIDE's marketing strategy.

# Message to our Shareholders

*"What we accomplished in fiscal 2000 not only allowed us to increase shareholder value, but set the stage for Axcan to further introduce drugs that will improve the quality of life of patients affected by a number of gastrointestinal-related diseases."*

## Message to our Shareholders

In last year's annual report, I mentioned that 1999 had seen Axcan not only achieve the objectives set at the time of our initial public offering, but actually surpass them. I am now pleased to report that 2000 brought us even stronger revenue and EBITDA growth than anticipated. It was an exciting year during which we made tremendous progress in our efforts to chart our future course and become a key provider of gastrointestinal products in North America, Europe and other parts of the world.

*"We achieved most of the objectives that we had set for 2000 and are confident we have set realistic ones for 2001. First and foremost, we plan to continue to expand, opening new markets and introducing new products."*

## Research and Development

Acquisition, research and development remain core to our corporate strategy. We intend to leverage our financial position and aggressively pursue our strategy of obtaining regulatory approval for expanded indications of existing products as well as seeking approval for products currently in our pipeline.

*"FOCUS, TIMELY ACTION and FLEXIBILITY guide our efforts to complete ongoing projects that represent Axcan's future."*

**Léon F. Gosselin,**
Chairman, President and Chief Executive Officer,
Axcan Pharma Inc.

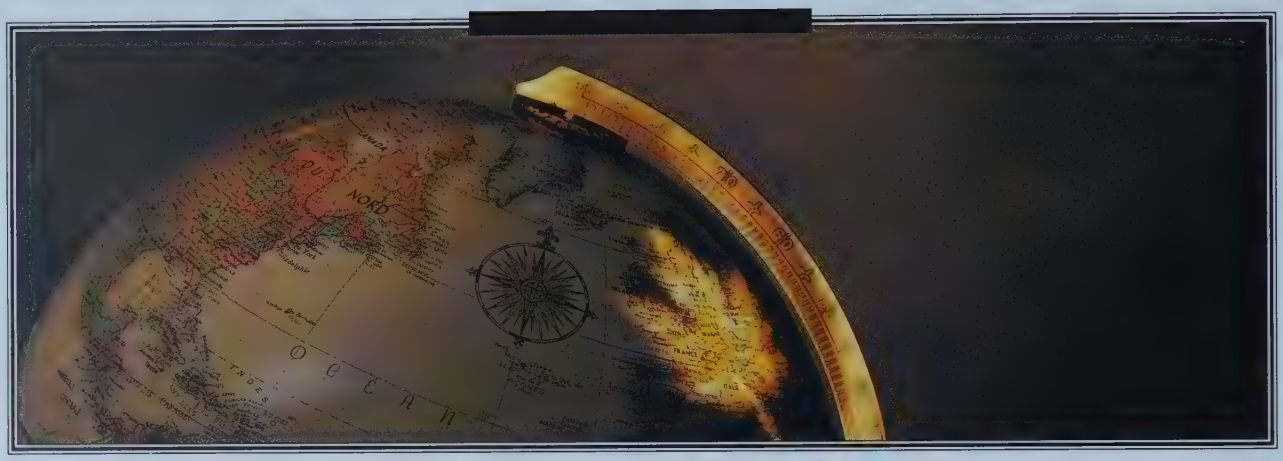
In our area, timely decisions regarding the conduct of clinical trials are critical for success in a fiercely competitive pharmaceutical arena. It is vital to initiate trials and select candidate compounds with real clinical significance that offer competitive advantages, and to introduce them into the marketplace without delay. Consequently, we have decided to update our 2001 pipeline to focus on products that will rapidly bear fruit.

The emphasis in 2001 will be placed on projects such as PHOTOFRIN, for the treatment of high-grade dysplasia associated with Barrett's Esophagus and HELICIDE, for *Helicobacter pylori* eradication. We hope to successfully launch these products in 2002 and apply a portion of the revenue they generate to longer-term projects.

We also anticipate a significant contribution from our US sales of CANASA mesalamine (5-ASA) suppositories, that have recently been approved by the FDA, for the treatment of active ulcerative proctitis.

We have recently in-licensed new sulfated ursodiol compounds. One of the main advantages of these sulfated compounds is that they can be delivered in higher concentrations directly to the colon. They also have a powerful stimulatory effect on bile flow, as well as high water solubility, which makes them ideal for intravenous administration in the treatment of liver-related cholestatic diseases. Once the proof of concept has been established and the product approved, these compounds may constitute the next generation of ursodiol, hence our decision to make this one of the top priority projects in the years to come.

*"Axcan intends to further leverage its ability to execute such research and development programs through R&D collaboration agreements with pharmaceutical partners and institutions."*




## Business Development

Three major events followed the acquisition of Scandipharm in August, 1999. First, through a vendor buy-back, we terminated a marketing venture with Schwarz Pharma Inc., thus enabling Axcan Scandipharm to market URSO 250 directly in the United States. This step was a crucial one for the Company, given our commitment to developing new and improved ursodiol derivatives and/or intellectual property protected formulations. Moreover, it allows us to considerably increase URSO 250's sales in the United States.

We also divested our interest in Althin Biopharm, a company active in the field of hemodialysis. This joint-venture represented the last non-core activity in which Axcan was involved.

Finally, we acquired PHOTOFRIN (porfimer sodium injection), the first approved photodynamic therapy to treat a variety of cancers, including gastrointestinal cancers such as obstructive esophageal cancer, gastric cancer and soon, we believe, high-grade dysplasia associated with Barrett's Esophagus.

Throughout the year we also pursued the signing of multiple marketing and licensing agreements with international pharmaceutical companies and research organizations. Agreements were signed with Grupo Ferrer, Eurand International SpA, Lym-Med-Nutritional, and the Children's Hospital Research Foundation (an operating division of the Children's Hospital Medical Center of Cincinnati, Ohio), among others.

These accomplishments during the past year demonstrate, once more, that Axcan is committed to meeting its objective of attaining significant, sustainable growth, and solidifying its position as a leading specialty pharmaceutical company in the field of gastroenterology.

## Finance

*"Axcan's revenue and earnings for fiscal 2000 once again reached record levels. Revenue for the year ended September 30, 2000, was $87.5 million, a 133% increase over 1999 revenue while net income from continuing operations more than quadrupled and reached $4.9 million or $0.18 per share."*

Greater sales volumes combined with higher margins have been the main drivers of this solid financial performance. In fiscal 2000, our sales in the United States amounted to $71.5 million and contributed 82% of our total revenue. This was accomplished with proportionately less incremental SG&A expenditures, and this in turn raised our EBITDA margin to 31% of revenue. Total revenue of $87.5 million provided a strong source of cash flow to fuel our future growth and development plans. Based on the success of the acquisition of Scandipharm in the United States and the significant opportunities already identified in Europe, we are confident of our ability to maintain a healthy growth rate in the next several years.

Major financial initiatives were also undertaken in the course of fiscal 2000. A successful public offering of 8.4 million common shares was completed in December, 1999, for gross proceeds of CDN $50.6 million (US $34.5 million). In June, 2000, we also completed our first US offering (US $40.1 million, for 6.7 million shares), which allowed us to entirely pay down the debt generated by the acquisition of Scandipharm. Furthermore, important shareholders, such as Wellington Asset Management, Investor AB, Perseus-Soros and Special Situations Funds, have joined the already strong list of Axcan shareholders. We also listed our shares on the NASDAQ National Market, and a first US analyst has already initiated coverage on Axcan, with a Buy recommendation. Last, this series of events culminated in the inclusion of Axcan as part of the TSE 300, the index comprised of 300 of Canada's largest publicly traded companies on the Toronto Stock Exchange. This was a tremendous recognition of Axcan's progress over the past few years.

From left to right:
(Standing) Patrick L. McLean, Dr. Patrick Colin, David W. Mims, John R. (Bob) Booth, Dr. François Martin, Jean Vézina
(Seated) Léon F. Gosselin, Martha Donze, Dr. France Guay

## Management Team

*"To support our growth, we implemented certain structural changes so as to allow management to keep pace with Axcan's rapid expansion."*

During the year, we made some significant changes in our management structure in order to keep pace with rapid growth in the United States, and to manage an expanded pipeline as well as the launch of PHOTOFRIN in Europe.

Following the acquisition of Scandipharm in August 1999, we had appointed Bob Booth as President and General Manager of our US and South American operations. At the time, we also appointed Martha Donze as Vice President, Corporate Administration. After the appointment of David W. Mims as Executive Vice President and COO in March 2000, Patrick L. McLean, previously Vice President, Sales and Marketing, was promoted to the position of Vice President, General Manager, Canada and Europe.

In the Scientific Affairs Department, Dr. François Martin was promoted to the position of Senior Vice President, Scientific Affairs and Dr. Patrick Colin was named Vice President, Clinical Research, reflecting their additional responsibilities as our pipeline grows.

Finally, after the close of the fiscal year, Jocelyn Pelchat was appointed Vice President, Business Development, in order to explore potential acquisitions as well as handle Axcan's out-licensing activities.

We also welcomed two new members to our Board of Directors: in August 2000 Michael M. Tarnow, President and CEO of Huntington Venture, LLC, and former President and CEO of Merck Frosst Canada, was appointed. He was joined soon after, in October, 2000, by Liza Page Nelson, Managing Director of Investor Growth Capital, Inc. These appointments clearly illustrate how we are extending our reach both scientifically and financially to map our future growth.

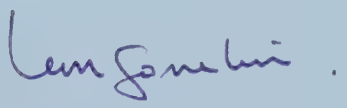
Overall, our restructured management team should enable us to continue our growth and focus on additional opportunities in the sales, marketing, research and development of products, as well as in the acquisition of new products or companies.

*"Axcan's excellent performance, in fiscal 2000 and during the previous years, would not have been possible without the strong and continuous support and dedication of each and every Axcan employee in North America."*

Our continued success reflects Axcan's commitment to its simple, focused corporate strategy. Our management structure allows us to identify and quickly respond to emerging opportunities in the gastrointestinal pharmaceutical market place. As I think about the driving force of Axcan today, the words that best characterize the current course of events are focus, caring and dedication, as well as scientific knowledge.

All in all, this has been a remarkable year and the best is yet to come! Axcan is now a world player in gastroenterology, ready to capitalize on an already strong position. We will continue to aggressively pursue expansion opportunities and acquisitions in our specialty pharmaceutical area. I believe that Axcan is poised to deliver solid growth as well as build shareholder value in years to come.

My personal thanks go out to all our employees and to our Board of Directors whose support and wise counsel have been of immense help throughout the year. I would like to thank our shareholders most sincerely for their continued support.

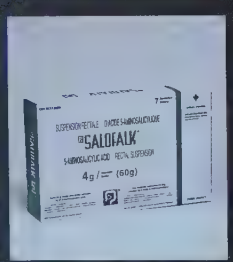


Léon F. Gosselin, B.Sc., M.B.A.
Chairman, President and
Chief Executive Officer
December, 2000

# Axcan Pharma:
# A Canadian-based Leader in Gastroenterology

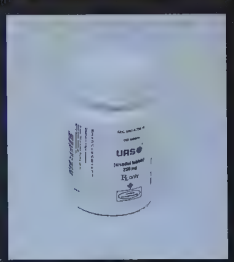
Canada is the market where Axcan first started to sell its products in 1986. Axcan now distributes its products to approximately 193 hospitals and 130 wholesalers, who in turn distribute them to pharmacies. Axcan's major products are included in most provincial drug benefit formularies and are promoted by Axcan to gastroentreologists, to colorectal surgeons and to internal medicine specialists with a particular interest in gastrointestinal diseases.

## Main products include:



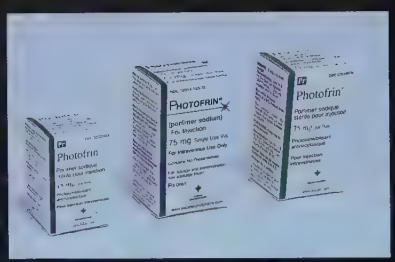

**SALOFALK**
(suppositories, tablets and enemas)

Treatment of inflammatory bowel disease.



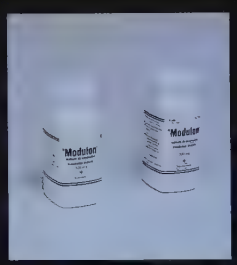

**URSO 250**
(tablets)

Treatment of cholestatic liver diseases and gallstone dissolution.




**PHOTOFRIN**
(PhotoDynamic Therapy)

Esophageal, bladder and lung cancers.

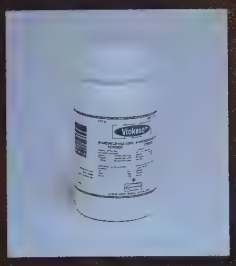



**MODULON**
(tablets)

Treatment of irritable bowel syndrome.

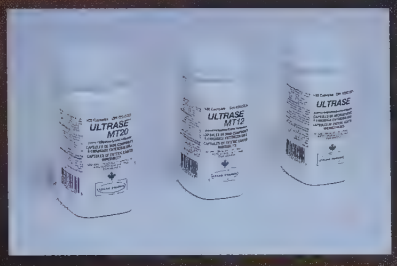

**CORTENEMA**
(enema)

Treatment of inflam
bowel disease.



## VIOKASE
(tablets and powder)

Pancreatic enzymes for the treatment of partial or complete exocrine pancreatic insufficiency associated with chronic pancreatitis, pancreatectomy, or with patients suffering from cystic fibrosis.




## ULTRASE
(enteric-coated capsules and powder)

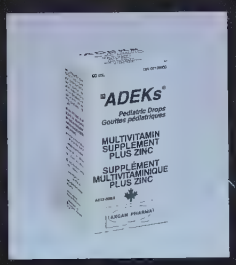
Pancreatic enzymes for the treatment of partial or complete exocrine pancreatic insufficiency associated with chronic pancreatitis, pancreatectomy, or with patients suffering from cystic fibrosis.


## LANSOŸL
(laxative jelly)

Relief of occasional constipation.


## SCANDISHAKE
(powder)

High-energy caloric supplements which help cystic fibrosis patients gain and maintain their weight.

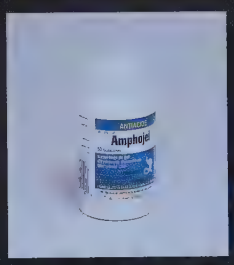



## ADEKs
(tablets and pediatric drops)

A high content, fat-soluble multivitamin supplement specially designed for cystic fibrosis patients.

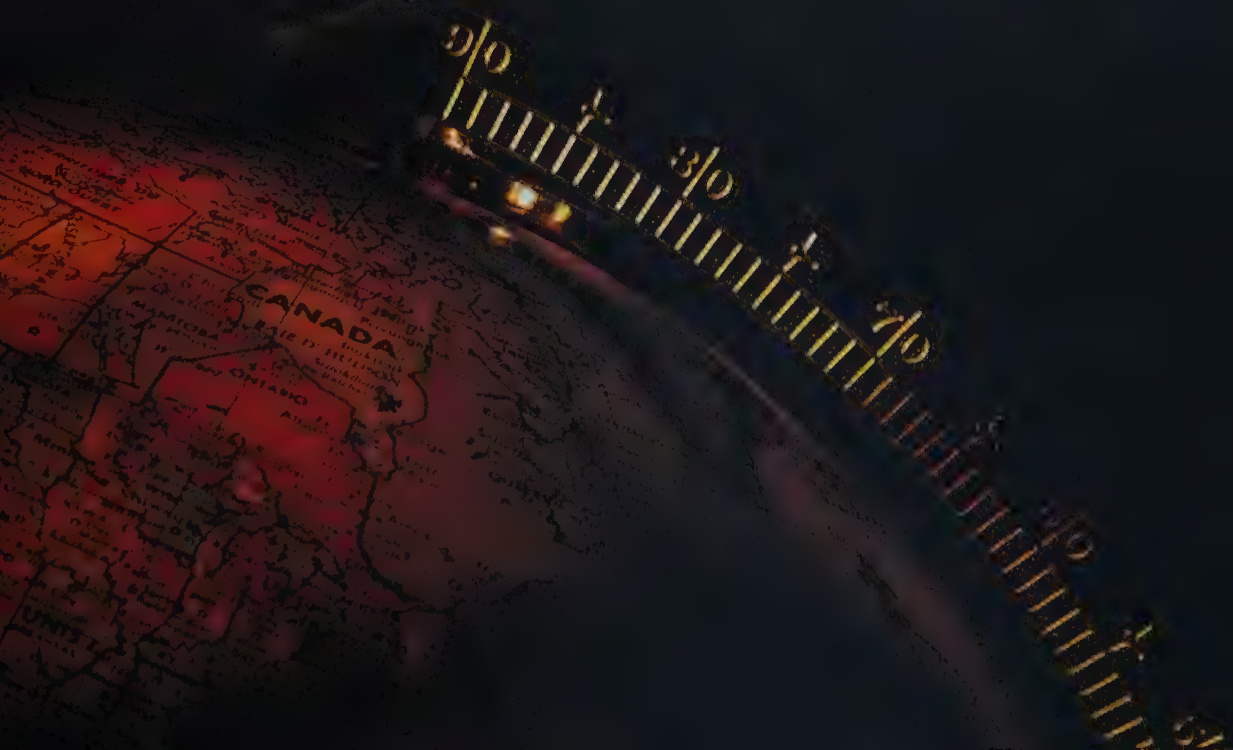

## FLUTTER
(device)

Improvement of pulmonary ventilation and expectoration of cystic fibrosis patients.




## AMPHOJEL, MUCAINE
(tablets and suspensions)

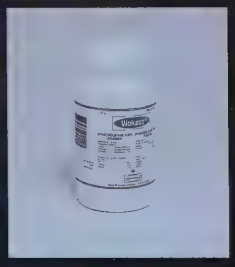
Antacids.



# Axcan Pharma:
# A Strong Presence in the US Marketplace

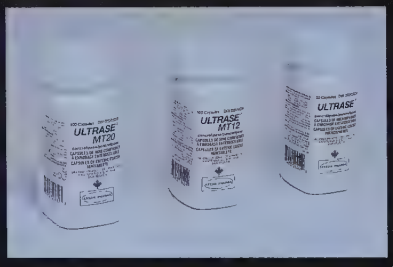
In the United States, Axcan sells its products to most major wholesale drug companies and distributors, who in turn distribute them to chain and independent pharmacies, hospitals and mail-order organizations.

## Products marketed in the United States include:



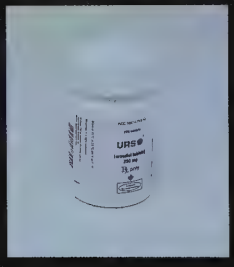

### VIOKASE
(tablets and powder)

Pancreatic enzymes for the treatment of partial or complete exocrine pancreatic insufficiency associated with chronic pancreatitis, pancreatectomy, or with patients suffering from cystic fibrosis.




### ULTRASE
(enteric-coated capsules and powder)

Pancreatic enzymes for the treatment of partial or complete exocrine pancreatic insufficiency associated with chronic pancreatitis, pancreatectomy, or with patients suffering from cystic fibrosis.




### URSO 250
(tablets)

Treatment of primary biliary cirrhosis.


### FIV-ASA MESALAMINE*
(suppositories)

Treatment of active ulcerative proctitis.



* In August 1999, the Food and Drug Administration requested that Axcan sell these suppositories in the United States under a temporary, emergency measure due to the lack of any other source of supply, which Axcan did, under the FIV-ASA brand. These suppositories have recently been approved by the FDA and will now be marketed under the CANASA brand.


SCANDICAL

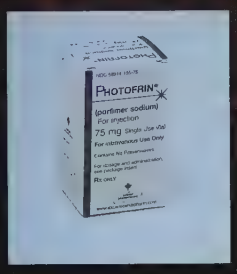
(powder)

High-energy caloric supplements which help cystic fibrosis patients gain and maintain their weight.


SCANDISHAKE

(powder)

High-energy caloric supplements which help cystic fibrosis patients gain and maintain their weight.




PHOTOFRIN

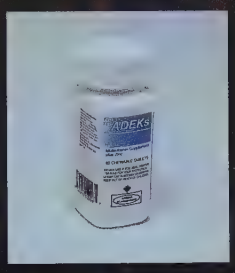
(PhotoDynamic Therapy)

Esophageal and lung cancers.


FLUTTER

(device)

Improvement of pulmonary ventilation and expectoration of cystic fibrosis patients.




ADEKs

(tablets and pediatric drops)

A high content fat-soluble multivitamin supplement specially designed for cystic fibrosis patients.

# Axcan Pharma: Additional Engine for Growth: Expansion into Europe

## PHOTOFRIN, our Gateway to the European Market

It is in the exploding $8-billion European pharmaceutical market, one of the world's largest pharmaceutical markets, that Axcan hopes to make large gains in the years to come. In fiscal 2001, through both direct and partnering initiatives, Axcan will prepare its entry on this growing market with PHOTOFRIN.

PHOTOFRIN has shown great promise in the treatment of various types of cancers, especially esophageal and non-small cell lung cancers. Axcan's plan is to target oncologists as well as gastroenterologists, since they both have the ability to treat the obstructive tumors for which PHOTOFRIN is approved to date. More importantly, these specialists are key to diagnosing and treating conditions for which PHOTOFRIN will likely be approved in the future.

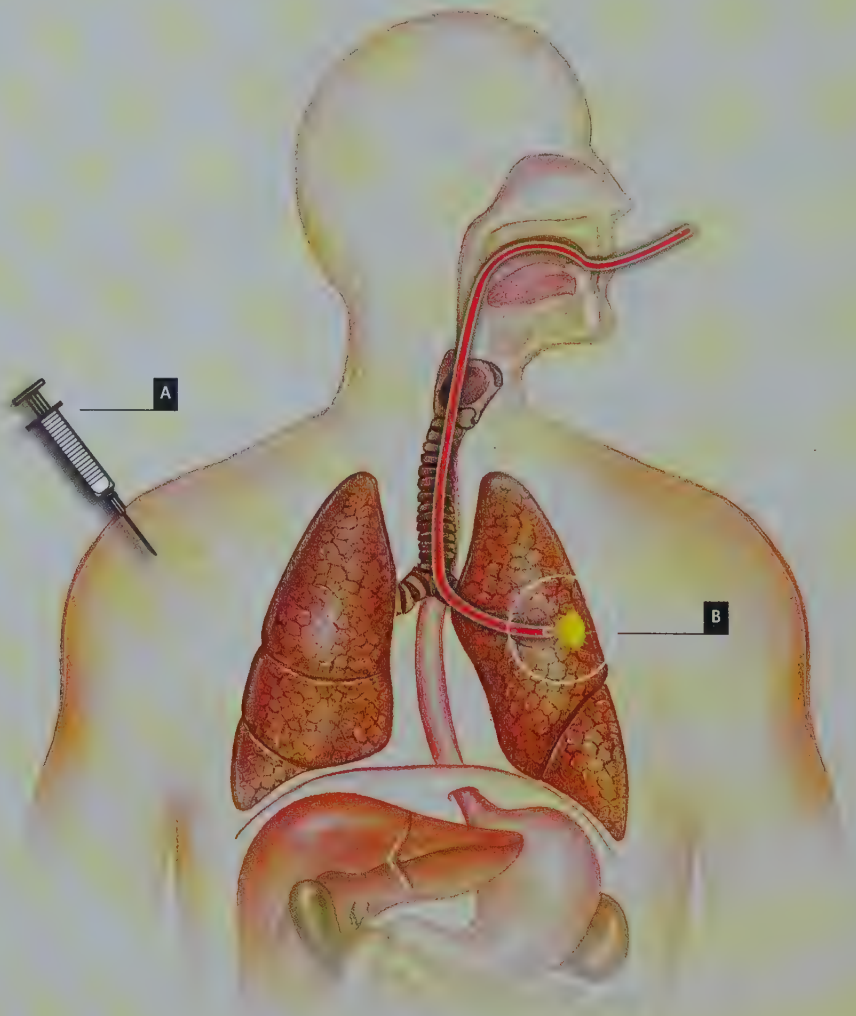
This strategy will allow us to enter the European community market and expand into the European Union, an integrated economy resulting from the combination of eleven currencies into one, the euro. This market is similar in size and importance to that of North America.


P-601
NDC 0024-1550-01
PHOTOFRIN®
(porfimer sodium)

# Entering the New and Growing Field of PDT with PHOTOFRIN

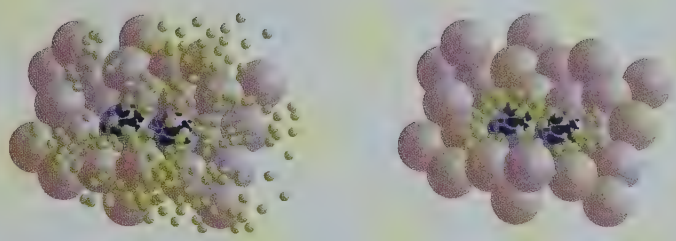
## How PHOTOFRIN Works

Photodynamic Therapy (PDT) is an important addition to conventional cancer therapies and, in most cases, can be performed on an outpatient basis, with the patient sedated or under local anesthesia. It is minimally invasive therapy and preserves normal tissue, which enables future treatments if required. In the case of PHOTOFRIN, the drug is injected intravenously and selectively accumulates in tumour cells and in dysplastic mucosa. After a period of 2 to 3 days, tumour cells (or the dysplastic mucosa) are then illuminated by a non-thermal laser light of specific wave-length (630 nanometers) for up to 15 minutes by means of a diffusing fiber optic used in conjunction with an endoscope. This light activation of the sensitized cells produces a toxic intracellular superoxydation that subsequently destroys the cancerous or precancerous cells.



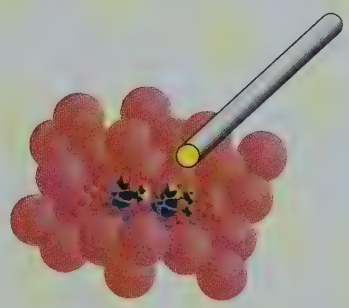
## A PHOTOFRIN PDT in Oncology:

Drug Administration and
Selective Accumulation



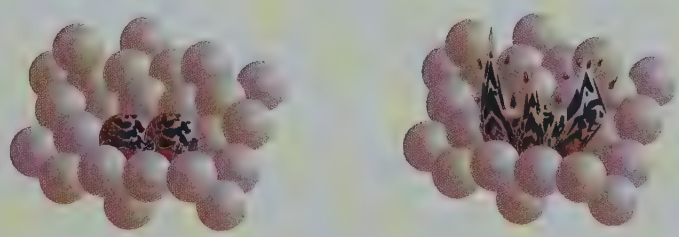
## B PHOTOFRIN PDT Procedure:

Light Administration

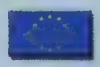


## PHOTOFRIN PDT Effect:

Selective Cell Destruction



# Research and Development

| Product | Indication | Preclinical | Phase I | Phase II | Phase III | Registration | Marketing |
|---|---|---|---|---|---|---|---|
| **MESALAMINE (5-ASA)** | | | | | | | |
| SALOFALK | Inflammatory bowel diseases | | | | | |  |
| CANASA | Active ulcerative proctitis | | | | |  Approved in January 2001 | |
| **BISMUTH-BASED SINGLE TRIPLE THERAPY** | | | | | | | |
| HELICIDE | *Helicobacter pylori* eradication | | | |  | | |
| **PHOTODYNAMIC THERAPY** | | | | | | | |
| PHOTOFRIN | Bladder, lung and esophageal cancers<br>Gastric and cervical cancers<br>Cervical dysplasia | | | | |  |  |
| PHOTOFRIN | Barrett's Esophagus | | | |  | | |

 Australia
 Canada
 Europe
 Japan
 United States

**Preclinical** Preparatory activities to support initiation of Phase I.
**Phase I** Primarily safety trials, conducted on healthy human populations.
**Phase II** Additional safety and investigation of the pharmacological effects of a drug, conducted on patient populations.
**Phase III** Large-scale dose ranging studies to determine efficacy and dosing of a drug, conducted on patient populations.
**Registration** Application with the regulatory authorities to obtain approval of a drug.

| Product | Indication | Preclinical | Phase I | Phase II | Phase III | Registration | Marketing |
|---|---|---|---|---|---|---|---|
| **URSODEOXYCHOLIC ACID** | | | | | | | |
| URSO 250 | Cholestatic liver diseases | | | | | |  |
| URSO 250 | Primary Biliary Cirrhosis | | | | | |  |
| URSO 250 | Primary Sclerosing Cholangitis | | |  | | | |
| URSO 250 | Non Alcoholic Steatohepatitis | | |  | | | |
| URSO 250 | Prevention of the recurrence of adenomatous colorectal polyps | | |  | | | |
| URSODIOL SULFATE | Prevention of the recurrence of adenomatous colorectal polyps<br><br>Cholestatis |  | | | | | |
| URSODIOL BICARBONATE | Primary Biliary Cirrhosis | |  | | | | |
| **PANCREATIC ENZYMES** | | | | | | | |
| VIOKASE | Exocrine pancreatic insufficiency | | | | | |  |
| VIOKASE | Exocrine pancreatic insufficiency | | |  | | | |
| ULTRASE | Exocrine pancreatic insufficiency | | | | | |  |
| ULTRASE | Exocrine pancreatic insufficiency | | | |  | | |
| ULTRASE | Diarrhea associated with HIV-AIDS | | |  | | | |

# Research and Development

*"One of our main goals for fiscal 2001 is to continue to leverage our experience and expertise in obtaining regulatory approval for our candidate products. Several of these projects should lead to regulatory filings or approvals in fiscal 2001 and 2002. Our goal is to put specific emphasis on the following projects that will allow us to obtain new approvals in the short-term and, as a consequence, generate revenue to fund other ongoing research projects."*

**CANASA mesalamine (5-ASA) suppositories**

Active ulcerative proctitis is a chronic inflammatory disease affecting the inner mucous membrane of the colon and more often the distal portions of the colon (rectum and sigmoid). In August, 1999, the FDA asked Axcan to sell mesalamine (5-ASA) suppositories in the United States under a temporary emergency measure, due to the lack of any other reliable source of supply in the US marketplace. In April, 2000, Axcan submitted an NDA for CANASA mesalamine (5-ASA) which was approved in January 2001. This will now allow Axcan to actively market this product in the United States, for the treatment of active ulcerative proctitis.

**HELICIDE — Eradication of *Helicobacter pylori***

At the beginning of fiscal 2001, Axcan announced very positive results from the Phase III North American pivotal clinical trial of HELICIDE, a bismuth-based, single triple capsule containing colloidal bismuth subcitrate (40 mg), metronidazole (125 mg) and tetracycline (125 mg), for the eradication of *Helicobacter pylori*. The presence of *Helicobacter pylori* is associated with gastritis, as well as with gastric and duodenal ulcers. Once a diagnosis of *Helicobacter pylori* infection has been established, eradication of the bacterium should be performed in order to reduce the rate of ulcer recurrence.

Results first confirmed that HELICIDE is as efficacious as the combination of omeprazole, amoxicillin and clarithromycin (OAC), the most prescribed *Helicobacter pylori* eradication therapy in North America. Indeed, on a per protocol basis, the eradication rates were 91% for HELICIDE, as compared to 88% for the group treated with OAC. But even more important, results demonstrated that the single-triple capsule regimen overcomes *Helicobacter pylori* metronidazole resistance, which is present in approximately 40% of North American duodenal ulcer patients. At the beginning of the study, metronidazole resistance was observed in 39% of patients before administration of the treatment and resistance to clarithromicyn was observed in 11% of patients. Metronidazole (a component of HELICIDE) resistance was overcome and *Helicobacter pylori* was eradicated in 86% of patients treated with the HELICIDE combination, whereas no more than 25% of clarithromycin-resistant patients were successfully treated with the OAC therapy. Axcan intends to file an NDA for this product candidate with the Canadian and American regulatory authorities in the course of fiscal 2001.

**PHOTOFRIN – Treatment of high-grade dysplasia associated with Barrett's Esophagus**

In September, 2000, several hundred physicians and researchers gathered in Paris for the "6th World Congress of the International Organization for Statistical Studies on Diseases of the Esophagus" to review the most up-to-date clinical experiences in the field. In an effort to achieve long-term success in the detection and the treatment of Barrett's Esophagus, they focused on new therapeutic strategies to help detect and cure Barrett's Esophagus, a condition that results from prolonged acid reflux. Data from a Phase III trial analyzed by Axcan and released at that meeting demonstrated that PHOTOFRIN is highly effective in treating this disease and can also be used as a means of preventing esophageal cancer. This Phase III trial using PHOTOFRIN and Photodynamic Therapy (PDT) in the treatment of high-grade dysplasia associated with Barrett's Esophagus was conducted in the United States, Canada, and Europe. The main purpose of the study was to assess the efficacy of PDT with PHOTOFRIN in conjunction with omeprazole in producing complete ablation of high-grade dysplasia (HGD), as compared to a control group of patients receiving omeprazole alone.

The results at six months showed that HGD was eliminated in 72% of the patients who received PHOTOFRIN and PDT, but only in 31% of the patients who received omeprazole alone.

Moreover, this PHOTOFRIN PDT therapeutic effect was sustained up to two years in 70% of responders, while no therapeutic effect was observed within three months in the omeprazole responders.

Finally, and more importantly, only 10% of patients treated with PHOTOFRIN progressed from HGD to esophageal cancer, compared to 19% of patients who received omeprazole alone. The incidence of progression to cancer is thus reduced by almost 50% with PHOTOFRIN and PDT treatment.

*"In conjunction with these studies that will be beneficial to Axcan in the short to mid-term, our second goal is to pursue ongoing studies that will be the basis of our long-term growth."*

These excellent results clearly show that PHOTOFRIN has the potential to help many patients with this insidious condition. These clearly demonstrate that PHOTOFRIN can be used as a means of prevention of esophageal cancer, once dysplasia or metaplasia is diagnosed in patients suffering from gastroesophageal reflux disease. Not only is it likely to substantially improve upon the risks and costs of eventual esophagectomy, but it could also allow effective treatment for early as well as later stages of disease progression.

Axcan intends to submit a supplemental NDA for this product candidate with the Canadian and American regulatory authorities in the course of fiscal 2001.

#### ULTRASE

Companies selling pancreatic enzymes in the United States have been marketing them for many years without a formal approval required. Under new proposals from the FDA, Axcan recently completed a Phase III clinical study on the efficacy of ULTRASE for the treatment of pancreatic insufficiency and intends to submit an NDA to the FDA in the course of fiscal 2001.

We are also conducting a Phase II study on the efficacy and safety of ULTRASE for the treatment of diarrhea associated with HIV-AIDS that is expected to be completed at the end of fiscal 2001.

#### VIOKASE

Companies selling pancreatic enzymes in the United States have been marketing them for many years without any formal approval. Under new guidelines from the FDA, Axcan recently initiated a Phase II clinical study on the efficacy of VIOKASE 16,000 for the treatment of pancreatic insufficiency. This study should be completed in the first half of fiscal 2002.

#### SULFATED URSODIOL COMPOUNDS

Axcan licensed sulfated derivatives of ursodeoxycholic acid compounds that may constitute a significant improvement over regular ursodeoxycholic acid for preventing the recurrence of colorectal adenomatous polyps. These compounds could also be a useful means to prevent cholestasis induced by total parenteral nutrition. In fiscal 2001, preclinical studies will be initiated to determine the proof of concept of this drug on animals.

#### URSODIOL BICARBONATE

Ursodiol bicarbonate is a new formulation containing ursodeoxycholic acid and sodium bicarbonate. The release of both products in the duodenum leads to the formation of the sodium salts of ursodeoxycholic acid. This salt is more water-soluble than the regular ursodiol and consequently is better absorbed. Axcan intends to develop this new formulation as an optimized version of URSO 250 in the treatment of primary biliary cirrhosis. Pharmacokinetic and pharmacodynamic clinical studies will be initiated in fiscal 2001.

#### URSO 250

Axcan's research and development program for URSO 250 targets various indications: primary sclerosing cholangitis, non-alcoholic steatohepatitis, and the prevention of the recurrence of adenomatous colorectal polyps, in a sub-group of high-risk patients.

Interim Phase II data recently released on the last indication suggested trends on the efficacy of URSO 250 in preventing the recurrence of adenomatous colorectal polyps, in a sub-group of high-risk patients. Final results should be available at the beginning of 2002.

Other Phase II studies assessing the efficacy of URSO 250 in the treatment of non-alcoholic steatohepatitis and primary sclerosing cholangitis should be completed in fiscal 2002. Axcan is currently evaluating the feasibility of conducting a large, multicenter study on the efficacy and safety of URSO 250 at 25-30/mg/kg/day in the treatment of primary sclerosing cholangitis.

#### LYM-X-SORB

LYM-X-SORB is an organized lipid matrix made up of lysophosphatidylcholine, monoglycerides and fatty acids, that can be used as an essential fatty acids (EFA) supplement in cystic fibrosis patients suffering from EFA deficiency leading to malnutrition and growth failure. Such a nutritional product offers significant advantages over the conventional triacylglycerol-based nutritional supplements. Axcan is currently developing a palatable pediatric formulation of this product, in order to eventually assess its efficacy and safety in clinical trials.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following analysis explains the variations in Axcan Pharma Inc. ("Axcan")'s results of operations, financial position and cash flow. This discussion should be read in conjunction with the information contained in Axcan's consolidated financial statements and the related notes to financial statements. Unless otherwise stated, all data exclude results pertaining to the operations discontinued following the sale of Althin Biopharm Inc. shares in May of 2000 and of Axcan Limited's shares in May of 1999. All amounts are in US dollars.*

## Overview

During the year ended September 30, 2000, Axcan purchased from Schwarz Pharma Inc. ("Schwarz") the 50% of the Axcan URSO, LLC joint-venture ("Axcan URSO", previously known as Axcan Schwarz, LLC) that Axcan did not already own, and purchased from QLT Inc. the worldwide rights to the product PHOTOFRIN.

For the year ended September 30, 2000, sales of Axcan's two principal products, ULTRASE and URSO 250, accounted for approximately 39% and 19%, respectively, of Axcan's total revenue. Much of Axcan's recent sales growth is derived from sales in the United States. Revenue from sales of Axcan's products in the United States was $71.5 million for fiscal 2000, compared to $22.6 million for fiscal 1999, and $11.3 million for fiscal 1998. In Canada, revenue was $16.0 million for fiscal 2000, compared to revenue of $15.0 million for fiscal 1999, and $13.1 million for fiscal 1998. Included in United States revenue for fiscal 1999 and 2000, is $2.3 million and $7.0 million respectively in sales of the mesalamine (5-ASA) suppositories manufactured in Canada, but sold in the United States following a request by the FDA to sell this product under a temporary emergency measure.

For the year ended September 30, 2000, Axcan's net earnings increased to a total of $6.7 million or $0.25 per share, compared to $1.4 million or $0.09 per share for the year ended September 30, 1999, and $1.0 million or $0.07 per share for the year ended September 30, 1998. These results include earnings from discontinued operations. For fiscal 2000, results include earnings from discontinued operations of $1.8 million, or $0.07 per share.

As at September 30, 2000, Axcan's total assets reached $254.1 million and shareholders' equity stood at $161.7 million. Axcan's cash and temporary investments amounted to $20.9 million.

## Financial analysis

### Revenue

Revenue for the year ended September 30, 1999, amounted to $87.5 million, an increase of $50.0 million or 133% compared to the preceding fiscal year. For fiscal 1999, revenue was $37.5 million compared to $24.4 million for fiscal 1998. These increases are mainly due to the increase of sales in the United States following the acquisitions of Scandipharm Inc. ("Scandipharm"), now known as Axcan Scandipharm Inc. ("Axcan Scandipharm") in August 1999 and the other 50% of the Axcan URSO joint-venture in November 1999.

### Cost of goods sold

Cost of goods sold was $22.3 million for the year ended September 30, 2000, compared to $9.5 million for fiscal 1999, and $8.0 million for fiscal 1998. As a percentage of sales, cost of goods sold was 25.5% for the year ended September 30, 2000, compared to 25.4% for fiscal 1999 and 32.8% for fiscal 1998. This decrease from fiscal 1998 was due primarily to increased sales in the United States.

### Selling and administrative expenses

Selling and administrative expenses were $32.1 million for the year ended September 30, 2000, compared to $17.8 million for fiscal 1999, and $13.0 million for fiscal 1998. The increase was primarily due to the inclusion of the selling and administrative expenses of Axcan Scandipharm following its acquisition.

As a percentage of revenue, selling and administrative expenses declined to 37% in fiscal 2000, from 47% in fiscal 1999 and 53% in fiscal 1998.

### Research and development expenses

Research and development expenses were $6.2 million for the year ended September 30, 2000, compared to $3.2 million for fiscal 1999, and $1.7 million for fiscal 1998. The increase was primarily due to the cost of the pivotal Phase III studies of HELICIDE, which began in September 1999.

### Financial expenses

Financial expenses consist principally of interest and fees paid in connection with money borrowed for acquisitions. Financial expenses were $9.1 million for the year ended September 30, 2000, compared to $2.8 million for fiscal 1999, and $0.1 million for fiscal 1998. The significant increase in financial expenses was primarily attributable to interest paid on loans of approximately $93 million in the aggregate, used to acquire Scandipharm, which were fully reimbursed as at June 30, 2000. The increase was also due to interest paid on a $52 million loan used to acquire the 50% interest in Axcan URSO.

### Depreciation and amortization

Depreciation and amortization was $10.5 million for the year ended September 30, 2000, compared to $3.0 million for fiscal 1999, and $1.9 million for fiscal 1998. The significant increase primarily results from the depreciation and amortization of capital assets and goodwill acquired as part of the acquisitions of Scandipharm and the 50% interest in Axcan URSO.

### Earnings

Axcan posted earnings from continuing operations of $4.9 million or $0.18 per share for the year ended September 30, 2000, compared with $1.0 million or $0.06 per share for fiscal 1999, and $0.3 million or $0.02 per share for fiscal 1998.

Axcan posted net earnings of $6.7 million, or $0.25 per share, for the year ended September 30, 2000, compared to $1.4 million, or $0.09 per share, for fiscal 1999 and $1.0 million, or $0.07 per share for fiscal 1998. Earnings from discontinued operations for the year ended September 30, 2000, of $1.8 million, or $0.07 per share, following the sale of Axcan's share in Althin Biopharm Inc. ("Althin Biopharm") include a net gain on disposal of assets of $1.44 million.

## Liquidity and financial position

For the year ended September 30, 2000, cash flow from continuing operations was $12.0 million compared to $0.5 million for fiscal 1999, and $5.8 million for fiscal 1998. Operating cash flow represents the cash flow generated from net earnings, excluding revenues and expenses not affecting cash, principally depreciation, amortization, future income taxes and capitalized interest.

The increase in cash flow from continuing operations for fiscal 2000, results primarily from the return to more normal operations as opposed to the fiscal 1999 decrease, which was mainly due to the increase in inventories and accounts receivable. These latter increases were directly related to growth in sales and Axcan's determination to meet increased demand for its products related to the Y2K issue.

During fiscal 2000, Axcan used net cash for repayment of notes payable in the amount of $92.0 million. This repayment was made using proceeds from issues of shares for a total amount of $88.3 million. As at September 30, 2000, cash and cash equivalents totaled $11.1 million compared to $27.6 million as at September 30, 1999, and $3.1 million as at September 30, 1998. The increase for 1999 is mainly due to cash and cash equivalents of Axcan Scandipharm at the time of its acquisition.

As at September 30, 2000, Axcan posted total assets of $254.1 million compared to $205.4 million as at September 30, 1999. Working capital amounted to $28.2 million as at September 30, 2000, compared to $15.5 million one year earlier.

As at September 30, 2000, Axcan's shareholders' equity amounted to $161.7 million compared to $58.5 million as at September 30, 1999.

Since inception, Axcan has funded research and development, operations, acquisitions of fixed assets and investment activities through public and private sales of equity, sales of products, interest income, bank loans and long-term borrowings. Based on current operating budgets, the management of Axcan believes that the resources of Axcan meet its current financial requirements.

## Review of operations

One of the outstanding events of the past two years was certainly the acquisition of Alabama-based Scandipharm, in August 1999.

Axcan Scandipharm specializes in the distribution of gastrointestinal and nutritional products, mainly ULTRASE and SCANDISHAKE. Axcan Scandipharm's sales force enables Axcan to better promote its products in the United States.

Furthermore, in November 1999, Axcan purchased from Schwarz its 50% interest in Axcan URSO for $52 million. These two acquisitions position Axcan as a key player in the North American gastroenterology field.

In May 2000, to further focus its activities on gastrointestinal products, Axcan sold its interest in the joint-venture Althin Biopharm, which specializes in the field of hemodialysis.

In June 2000, Axcan added another promising product to its pipeline by purchasing from QLT Inc. ("QLT") the worldwide rights to PHOTOFRIN, the first drug to be approved in any jurisdiction as a photodynamic therapy for the treatment of certain cancers.

In addition, in June 2000, Axcan's shares began trading on the NASDAQ National Market under the ticker symbol "AXCA".

## Outlook

Since its foundation, Axcan has been more and more active in gastroenterology. Axcan has progressively built a high level of awareness with physicians specialized in this area in Canada as well as abroad. The acquisitions of Axcan Scandipharm and the 50% interest in Axcan URSO that Axcan did not already own, allowed it to continue its progress in the United States.

Axcan's solid financial position, as well as its cash flow from operations, make it possible for the Company to pursue its operational objectives.


### Risk factors

The future performance of Axcan is dependent on a number of factors, including the progress of URSO sales on the United States market and of PHOTOFRIN sales on the world market, along with the level of marketing expenses necessary to obtain that progress, the research and development program as well as obtaining regulatory approvals for various products and indications.

### Cash flow and financial resources

Axcan believes that cash, temporary investments and long-term investments, together with funds provided by operations, will be sufficient to meet operating cash requirements, including development of products through research and development activities, as well as capital expenditures and repayment of its debt. Product candidates in Axcan's pipeline, assuming regulatory approvals of these future products and indications stemming from its research and development efforts, will also significantly contribute to the increase in funds provided by operations.

### Volatility of share prices

The market price of Axcan's shares is subject to volatility. Deviations in actual financial or scientific results, as compared to expectations of securities analysts who follow our activities, can have a significant effect on the trading price of Axcan's shares. Changes in accounting standards could or could not have an impact on the financial statements' presentation.

### Safe Harbour Statement

The matters discussed in this management discussion and analysis of financial condition and results of operations are, by nature, forward-looking. For a number of reasons, actual results could differ materially.


Financial
Statements

# Table of contents

# Management's Report

The consolidated financial statements of Axcan Pharma Inc. and the other financial information included in this annual report are the responsibility of the Company's management.

These consolidated financial statements and the other financial information have been prepared by management in accordance with generally accepted accounting principles. This responsibility includes the selection of appropriate accounting principles and methods in the circumstances and the use of careful judgement in establishing reasonable accounting estimates.

Management maintains internal control systems designed among other things, to provide reasonable assurance that the Company's assets are adequately safeguarded and that the accounting records are a reasonable basis to prepare relevant and reliable financial information.

The Audit Committee is now consisted solely of external directors. This committee meets with the external auditors and management to discuss matters relating to the audit, internal control and financial information. The Committee also reviews the consolidated quarterly and annual financial statements.

These consolidated financial statements have been audited by Raymond Chabot Grant Thornton, Chartered Accountants, whose report indicating the scope of their audit and their opinion on the consolidated financial statements is presented below.

The Board of Directors has approved the Company's financial statements on the recommendation of the Audit Committee.

**Léon F. Gosselin,** President and Chief Executive Officer

**David W. Mims,** Executive Vice President and Chief Operating Officer

**Jean Vézina,** Vice President, Finances and Chief Financial Officer

Mont Saint-Hilaire, Quebec, Canada November 9, 2000

# Auditors' Report

To the Shareholders of Axcan Pharma Inc.

We have audited the consolidated balance sheets of Axcan Pharma Inc. as at September 30, 2000 and 1999 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended September 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2000 in accordance with generally accepted accounting principles in Canada.

Raymond Chabot Grant Thornton

General Partnership
Chartered Accountants

Montreal, Quebec, Canada
November 9, 2000

# Consolidated Balance Sheets

| SEPTEMBER 30 | 2000 | 1999 |
|---|---|---|
| *in thousands of U.S. dollars* | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | 11,135 | 27,559 |
| Short-term investments, at cost *(Note 6)* | 9,787 | 19,300 |
| Accounts receivable *(Note 7)* | 14,776 | 15,514 |
| Income taxes receivable | 3,301 | 3,064 |
| Inventories *(Note 8)* | 13,335 | 12,463 |
| Prepaid expenses and deposit | 2,014 | 1,127 |
| Future income taxes *(note 9)* | 2,315 | 2,756 |
| Total current assets | 56,663 | 81,783 |
| Investments *(Note 10)* | 1,838 | 2,861 |
| Capital assets *(Note 11)* | 168,138 | 91,272 |
| Future income taxes *(Note 9)* | 6,173 | 6,816 |
| Other assets *(Note 12)* | 21,240 | 22,646 |
| | 254,052 | 205,378 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable *(Note 14)* | 15,620 | 18,856 |
| Notes payable *(Note 15)* | – | 40,224 |
| Income taxes payable | 1,722 | 127 |
| Instalments on long-term debt | 10,614 | 5,719 |
| Future income taxes *(Note 9)* | 467 | 1,371 |
| Total current liabilities | 28,423 | 66,297 |
| Long-term debt *(Note 16)* | 36,688 | 48,279 |
| Contingency provisions *(Note 24)* | – | 5,378 |
| Future income taxes *(Note 9)* | 26,655 | 26,887 |
| Non-controlling interest | 556 | – |
| | 92,322 | 146,841 |
| **Shareholders' Equity** | | |
| Equity component of purchase price *(Note 17)* | 2,704 | – |
| Capital stock *(Note 18)* | 152,905 | 55,445 |
| Retained earnings | 7,195 | 4,166 |
| Accumulated foreign currency translation adjustments | (1,074) | (1,074) |
| | 161,730 | 58,537 |
| | 254,052 | 205,378 |

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

**Léon Gosselin**
Director

**Claude Sauriol**
Director

## Consolidated Earnings

| YEARS ENDED SEPTEMBER 30 | 2000 | 1999 | 1998 |
|---|---|---|---|
| *in thousands of U.S. dollars, except per share amounts* | $ | $ | $ |
| Revenue | 87,486 | 37,549 | 24,428 |
| Cost of goods sold | 22,313 | 9,546 | 8,009 |
| Selling and administrative expenses | 32,127 | 17,771 | 13,048 |
| Research and development expenses | 6,174 | 3,175 | 1,735 |
| | 60,614 | 30,492 | 22,792 |
| | 26,872 | 7,057 | 1,636 |
| Financial expenses | 9,095 | 2,800 | 44 |
| Interest income | (1,072) | (1,111) | (547) |
| Depreciation and amortization | 10,522 | 3,021 | 1,940 |
| | 18,545 | 4,710 | 1,437 |
| Earnings before income taxes | 8,327 | 2,347 | 199 |
| Income taxes *(Note 9)* | 3,387 | 1,348 | (55) |
| Earnings from continuing operations | 4,940 | 999 | 254 |
| Earnings from discontinued operations, including a net gain on divestiture of $1,442 in 2000 ($521 in 1998) *(Note 5)* | 1,796 | 413 | 793 |
| **Net earnings** | 6,736 | 1,412 | 1,047 |
| Per common share | | | |
| Earnings from continuing operations | 0.18 | 0.06 | 0.02 |
| Earnings from discontinued operations | 0.07 | 0.03 | 0.05 |
| Net earnings | 0.25 | 0.09 | 0.07 |
| Weighted average number of common shares | 26,575,475 | 16,111,545 | 15,665,221 |

## Consolidated Retained Earnings

| YEARS ENDED SEPTEMBER 30 | 2000 | 1999 | 1998 |
|---|---|---|---|
| *in thousands of U.S. dollars* | $ | $ | $ |
| Balance, beginning of year | 4,166 | 2,868 | 1,838 |
| Net earnings | 6,736 | 1,412 | 1,047 |
| Common share issue expenses, net of future income taxes in the amount of $1,853 for 2000, ($69 for 1999 and $11 for 1998) | (3,565) | (114) | (17) |
| Cumulative dividends on preferred shares | (142) | – | – |
| Balance, end of year | 7,195 | 4,166 | 2,868 |

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Cash Flows

| YEARS ENDED SEPTEMBER 30 | 2000 | 1999 | 1998 |
|---|---|---|---|
| *in thousands of U.S. dollars* | $ | $ | $ |
| **Operations** | | | |
| Earnings from continuing operations | 4,940 | 999 | 254 |
| Dividends from a company subject to significant influence | 12 | 25 | 16 |
| Non-cash items | | | |
| Interest | – | 1,484 | – |
| Depreciation and amortization | 10,995 | 3,966 | 1,982 |
| Gain on disposal of assets | (37) | – | – |
| Foreign currency fluctuation | 320 | (69) | (88) |
| Future income taxes | 1,934 | 3,986 | (1,260) |
| Investment tax credits | (627) | 214 | 258 |
| Share in net loss of companies subject to significant influence | 125 | 186 | 75 |
| Changes in working capital items from continuing operations *(Note 20)* | (5,674) | (10,310) | 4,517 |
| Cash flows from continuing operations | 11,988 | 481 | 5,754 |
| Cash flows from discontinued operations | 396 | 160 | 51 |
| Cash flows from operating activities | 12,384 | 641 | 5,805 |
| **Financing** | | | |
| Notes payable | – | 90,533 | – |
| Repayment of notes payable | (92,017) | – | – |
| Repayment of long-term debt | (13,620) | – | (1,243) |
| Issue of shares | 88,342 | 10,252 | 4,166 |
| Share issue expenses | (4,876) | (183) | (28) |
| Cash flows from discontinued operations | (12) | (17) | (22) |
| Cash flows from financing activities | (22,183) | 100,585 | 2,873 |
| **Investment** | | | |
| Acquisition of short-term investments | (9,787) | (34,951) | (15,594) |
| Disposal of short-term investments | 19,300 | 43,180 | 9,489 |
| Net proceeds from discontinued operations | 4,587 | – | 1,596 |
| Acquisition of investments | (99) | (128) | (491) |
| Disposal of investments | 1,982 | – | – |
| Acquisition of capital assets | (20,827) | (865) | (1,590) |
| Other | – | (1,041) | (6) |
| Net cash used for business acquisitions *(Note 4)* | (1,798) | (82,456) | – |
| Cash flows from discontinued operations | 17 | 33 | (222) |
| Cash flows from investment activities | (6,625) | (76,228) | (6,818) |
| Foreign exchange loss on cash held in foreign currency | – | (504) | – |
| **Net increase (decrease) in cash and cash equivalents** | (16,424) | 24,494 | 1,860 |
| Cash and cash equivalents, beginning of year | 27,559 | 3,065 | 1,205 |
| Cash and cash equivalents, end of year | 11,135 | 27,559 | 3,065 |

The accompanying notes are an integral part of the consolidated financial statements.

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*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 1. Governing Statutes and Nature of Operations

The Company, incorporated under the Canada Business Corporations Act, is involved in the research, development, production and distribution of pharmaceutical products, mainly in the field of gastroenterology.

## 2. Changes in Reporting Currency and Accounting Policies

**Change in reporting currency**

The consolidated financial statements of the Company were presented in Canadian dollars up to September 30, 1999. Until that date, the Canadian dollar was also considered the functional currency of the Company. Further to the acquisition of Axcan Scandipharm Inc. ("Axcan Scandipharm") and the redemption of Schwarz Pharma Inc. ("Schwarz") 50% interest in the Axcan Urso LLC (formerly Axcan Schwarz LLC, ("LLC") joint-venture, a growing proportion of the Company's operations is in the United States. As of October 1, 1999, the Company has decided to change its currency of display and its currency of measurement to the U.S. dollars.

The financial information for the years ended September 30, 1999 and 1998 is presented in U.S. dollars in accordance with a translation of convenience method using the closing exchange rate at September 30, 1999 of U.S. $0.68 for CDN$1.00. The translated amount for Canadian non-monetary items at September 30, 1999 became the historical basis for those items subsequently.

**Changes in accounting policies**

**Income taxes**

In 1998, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to income taxes and has restated the prior period financial statements. Under the new standards, the Company uses the liability method to recognize and measure future income tax assets and liabilities whereas previously, income taxes were provided on the tax allocation basis. This change has led to an increase (decrease) in the following financial statement items in 1998:

| | $ |
|---|---|
| Future income tax assets | 1,531 |
| Future income tax liabilities | 904 |
| Retained earnings | 627 |
| Future income taxes | (527) |
| Net earnings | 527 |

In addition, income taxes receivable are shown separately from income taxes payable.

**Cash flows**

In 1998, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the Statement of Cash Flows. As a result, the short-term investments which had been presented in the cash position are now presented as investment activities. This change has led to a decrease in the following items in 1998:

| | $ |
|---|---|
| Cash flows from investment activities | (6,105) |
| Net increase in cash | (6,105) |
| Cash and cash equivalents, beginning of year | (7,468) |
| Cash and cash equivalents, end of year | (13,573) |

**Standard applicable for the year 2001**

In 2000, the Canadian Institute of Chartered Accountants ("CICA") approved a new standard concerning the calculation of earnings per share. The Company is required to adopt this standard for fiscal years beginning on or after January 1st, 2000. The new standard should have no material impact upon the calculation of earnings per share; however, the new standard will require additional disclosure.

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*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 3. Accounting Policies

The financial statements are expressed in U.S. dollars and were prepared in accordance with generally accepted accounting principles in Canada, which in the case of Axcan Pharma Inc., can differ from generally accepted accounting principles in the United States, as shown in Note 25.

**Accounting estimates**

The preparation of financial statements in accordance with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and recognized amounts of revenues and expenses during the year. Actual results could differ from those estimates.

**Principles of consolidation**

These financial statements include the accounts of the Company and its subsidiaries, the most important being Axcan Scandipharm Inc. and Axcan Pharma U.S. Inc. The Company's interest in the joint-ventures Althin Biopharm Inc. (until May 30, 2000) and Axcan Urso LLC (until November 19, 1999) is accounted for by the proportionate consolidation method.

**Revenue recognition**

Revenues are recognized as the Company's obligations pertaining to the deliveries are fulfilled.

**Cash and cash equivalents**

The Company includes in cash and cash equivalents cash and all highly liquid short-term investments with initial maturities of three-months or less.

**Inventory valuation**

Inventories of raw materials and packaging material are valued at the lower of cost and replacement cost. Inventories of work in progress and finished goods are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method.

**Investments in companies subject to significant influence**

The investments in shares of companies subject to significant influence are recorded using the equity method.

**Research and development**

Research and development expenses are charged to earnings in the year they are incurred, net of related tax credits.

**Depreciation and amortization**

Capital assets are depreciated over their estimated useful lives according to the following methods and annual rates:

| | Methods | Rates |
|---|---|---|
| Buildings | Diminishing balance | 4% and 5% |
| Furniture and equipment | Diminishing balance and | 20% |
| | straight-line | 10% |
| Automotive and computer equipment | Diminishing balance | 30% |
| Leasehold and building improvements | Straight-line | 20% |
| Trademarks, trademark licenses and manufacturing rights | Straight-line | 4% and 6.67% |

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 3. Accounting Policies (Continued)

Bond discount is amortized on a straight-line basis over a five-year period until 2000.

Goodwill is amortized on a straight-line basis over periods of 15 or 20 years.

Management evaluates the value of the unamortized portion of goodwill, trademarks, trademark licenses and manufacturing rights annually by comparing the carrying value to the future benefits of the companies' activities or the expected sale of pharmaceutical products. Should there be a permanent impairment in value or if the unamortized balance exceeds recoverable amounts, a write-down will be recognized for the current year.

**Debt issue costs**

Debt issue costs are deferred and amortized over the remaining term of the loans.

**Stock options**

The Company has granted stock options as described in Note 18. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on the exercise of stock options is credited to share capital.

**Foreign currency translation**

The current rate method of translation of foreign currencies is followed for subsidiaries, or joint-venture considered financially and operationally self-sustaining. Therefore, all gains and losses arising from the translation of the financial statements of subsidiaries or joint-venture are deferred in an "Accumulated foreign currency translation adjustments" account under "Shareholders' equity".

Monetary assets and liabilities in currency other than U.S. dollars of Canadian companies and integrated foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date whereas other assets and liabilities are translated at exchange rates in effect at transaction dates. Revenue and operating expenses in foreign currency are translated at the average rates in effect during the year. Gains and losses are included in earnings for the year, except for those relating to long-term debt, which are deferred and amortized over the remaining life of the debt.

**Earnings per share**

Earnings per share is calculated using the weighted average number of common shares outstanding during the year.

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 4. Business Acquisitions

**a) September 30, 2000**

On November 19, 1999, Axcan redeemed Schwarz's 50% interest in the Axcan Urso LLC joint-venture. The purchase price amounts to $52,000,000 and was paid in cash by a loan from Schwarz Pharma Inc. This acquisition was accounted for using the purchase method. The purchase price allocated to capital assets including trademarks, trademarks licenses and manufacturing rights will be amortized using the straight-line method over a period of 25 years.

On December 22, 1999, the Company reimbursed the note payable with a par value of CDN$40,000,000 to a subsidiary of Caisse de dépôt et placement du Québec ("CDPQ") by the issuance of shares of Axcan Scandipharm representing a 40.4% interest in Axcan Scandipharm. The same day, the Company acquired this 40.4% interest for cash. The excess of the cost of the purchase over the book value of the note payable amounting to $1,495,774 was accounted for as goodwill.

On May 25, 2000, the Company acquired additional shares of a company subject to significant influence, Biozymes Inc. ("Biozymes"), a company specializing in the development and production of enzymes by extraction processes; this additional acquisition of shares increased the interest of the Company in Biozymes from 26.78% to 54.58%. The acquisition cost amounted to $574,324, of which $302,322 was paid in cash and the balance will be payable during year 2001.

The following table shows the breakdown of these acquisitions:

| | $ |
|---|---|
| Net assets acquired at the attributed values | |
| Assets | |
| Cash and cash equivalents | 9 |
| Inventories | 119 |
| Other working capital items | 91 |
| Capital assets | 53,609 |
| Goodwill | 1,496 |
| | 55,324 |
| Liabilities | |
| Accounts payable | 311 |
| Long-term debt | 387 |
| Non-controlling interest | 556 |
| | 1,254 |
| | 54,070 |
| Consideration | |
| Cash | 1,798 |
| Loan payable | 52,000 |
| Purchase price balance payable | 272 |
| | 54,070 |

These acquisitions were accounted for using the purchase method and, consequently, the acquisition cost has been allocated to the assets and liabilities according to their estimated fair value at the acquisition dates. The operating results relating to these acquisitions have been included in the consolidated financial statements from the acquisition date.

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 4. Business Acquisitions (Continued)

**b) September 30, 1999**

On August 2, 1999, the Company acquired the majority of the outstanding shares of Axcan Scandipharm a distributor of gastro-intestinal products. Substantially all of the remaining outstanding shares were acquired subsequently. On September 30, 1999, 12,292 shares (0.11% of the outstanding shares) were still held by third parties.

The acquisition cost, including transaction expenses, amounts to $103,662,639 and was paid in cash.

On August 31, 1999, the Company acquired a 50% share in the Companies Bonne Santé Sp. z o.o. and Czet Pharma Inc. (hereafter collectively called "Czet"), companies specializing in the distribution of pharmaceutical products in Poland. The acquisition cost amounts to $589,507 and was paid with the issuance of 75,000 common shares of the Company and $150,732 in cash.

The following table shows the breakdown of these acquisitions:

| | $ |
|---|---|
| Net assets acquired at the attributed values | |
| Assets | |
| Cash and cash equivalents | 21,358 |
| Short-term investments | 14,135 |
| Other working capital items | 4,080 |
| Capital assets and other assets | 68,332 |
| Goodwill | 20,583 |
| | 128,488 |
| Liabilities | |
| Contingency provisions | 5,512 |
| Future income taxes | 18,724 |
| | 24,236 |
| | 104,252 |
| Consideration | |
| Cash, including transaction expenses | 103,814 |
| Common shares issued | 438 |
| | 104,252 |
| Net cash used for the acquisitions | 82,456 |

These acquisitions were accounted for using the purchase method and, consequently, the acquisition cost has been allocated to the assets and liabilities according to their estimated fair value at the acquisition dates. The operating results relating to the acquisition of Axcan Scandipharm have been included in the consolidated financial statements from the acquisition date and those of Czet are accounted for under the proportionate consolidation method also from the date of acquisition.

Using the assumption that the effective date of the business acquisitions is October 1,1997, the consolidated pro-forma results of operations of the Company would have been as follows for the years ended September 30:

| | 2000 (unaudited) | 1999 (unaudited) | 1998 (unaudited) |
|---|---|---|---|
| | $ | $ | $ |
| Revenue | 89,668 | 71,961 | 55,550 |
| Net earnings (loss) | 7,441 | (1,525) | (7,485) |
| Net earnings (loss) per share | 0.27 | (0.07) | (0.43) |

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 5. Discontinued Operations

During the third quarter of the year ended September 30, 2000, the Company decided to discontinue the operations related to Althin Biopharm Inc., a joint-venture operating in the dialysis products field. The shares of the joint-venture have been sold to the other joint venturer for a cash consideration of $5,067,568.

During the third quarter of the year ended September 30, 1999, the Company decided to discontinue the operations related to its subsidiary, Axcan Ltée, specialized in the contraceptive field and the prevention of sexually transmitted diseases. The shares of the subsidiary have been sold to a private company for a consideration of $1,156,463 in preferred shares.

During the third quarter of the year ended September 30, 1998, the Company decided to discontinue the operations related to its laboratories services subsidiary, Laboratoires Biopharm Inc. Operating assets were disposed to a Canadian public company and the building to the Althin Biopharm Inc. joint-venture. The proceeds of the sale amount to $2,581,950 and were received in cash except for an amount of $272,109 subject to a note receivable.

The operating results of the above subsidiaries and joint-venture to the effective divestiture date, together with the net gain on divestiture were disclosed separately as "Earnings from discontinued operations" in the financial statements and the notes. The results of the discontinued operations disclosed in the statements of earnings are as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Revenue | 3,701 | 5,659 | 5,319 |
| Expenses | | | |
| Cost of goods sold | 2,473 | 4,062 | 3,516 |
| Selling and administrative expenses | 540 | 773 | 783 |
| Research and development expenses | 7 | 81 | 285 |
| Financial expenses | 7 | 17 | 116 |
| Depreciation and amortization | 68 | 50 | 167 |
| Income taxes | 252 | 263 | 180 |
| | 3,347 | 5,246 | 5,047 |
| Contribution to the Company's earnings | 354 | 413 | 272 |
| Net gain on divestiture | 1,442 | – | 521 |
| Earnings from discontinued operations | 1,796 | 413 | 793 |

The net gain on divestiture is as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Net proceeds | 5,055 | 1,156 | 2,412 |
| Net assets sold | | | |
| Investments | 463 | – | – |
| Capital assets | 827 | 693 | 1,137 |
| Goodwill | 227 | – | – |
| Working capital items including $468 of cash | 1,691 | 80 | 238 |
| Future income taxes | – | 383 | – |
| Long-term debt | (465) | – | – |
| | 2,743 | 1,156 | 1,375 |
| Gain on divestiture | 2,312 | – | 1,037 |
| Recognized (unrecognized) gain resulting from the disposal of the building to a joint-venture | 243 | – | (243) |
| Income taxes | (1,113) | – | (273) |
| Net gain on divestiture | 1,442 | – | 521 |

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 5. Discontinued Operations (Continued)

The assets and liabilities of discontinued operations included in the balance sheet as at September 30, 1998 include the following:

| | $ |
|---|---|
| Current assets | 1,967 |
| Capital assets | 615 |
| Future income tax assets | 91 |
| Other assets | 435 |
| Current liabilities | 519 |
| Long-term debt | 504 |

## 6. Short-Term Investments

Short-term investments are available for sale and include debt securities (debt securities and short-term notes in 1999) maturing in the coming year. Interest rates vary between 6.61% and 6.65% (4.55 % and 5.58 % in 1999).

## 7. Accounts Receivable

| | 2000 | 1999 |
|---|---|---|
| | $ | $ |
| Trade accounts, net of allowance for doubtful accounts of $215 ($256 in 1999) *(a)* | 13,778 | 10,300 |
| Settlement of litigation receivable | – | 2,670 |
| Investments receivable within one year | 146 | 1,654 |
| Taxes receivable | 508 | 238 |
| Other | 344 | 652 |
| | 14,776 | 15,514 |

*(a) As at September 30, 2000, the accounts receivable include amounts receivable from a U.S. distributor and two customers which represent approximately 50% (55% in 1999) of the Company's total accounts receivable.*

## 8. Inventories

| | 2000 | 1999 |
|---|---|---|
| | $ | $ |
| Raw materials and packaging material | 4,141 | 5,278 |
| Work in progress | 3,909 | 1,886 |
| Finished goods | 5,285 | 5,299 |
| | 13,335 | 12,463 |

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*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 9. Income Taxes

Income taxes from continuing operations included in the statement of earnings are as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Current | 1,453 | (2,638) | 1,205 |
| Future | | | |
| Creation and reversal of temporary differences | 541 | 4,067 | (204) |
| Capital gains (losses) | 62 | 52 | (54) |
| Operating losses | 1,331 | (133) | (1,002) |
| | 1,934 | 3,986 | (1,260) |
| | 3,387 | 1,348 | (55) |
| Domestic | 1,661 | 701 | 1,196 |
| Foreign | 1,726 | 647 | (1,251) |
| | 3,387 | 1,348 | (55) |

The future income tax assets and liabilities result from differences between the tax value and book value of the following items:

| | 2000 | 1999 |
|---|---|---|
| | $ | $ |
| Short-term future income tax assets | | |
| Inventories | 122 | 183 |
| Accounts payable | 1,002 | 967 |
| Contingency provisions | 1,179 | – |
| Unused operating losses | – | 1,606 |
| Research and development expenses | 12 | – |
| | 2,315 | 2,756 |
| Long-term future income tax assets | | |
| Capital assets | 1,708 | 1,319 |
| Investments | 15 | 63 |
| Share issue expenses | 1,581 | 354 |
| Unused capital losses | – | 62 |
| Unused operating losses | 1,732 | 1,457 |
| Research and development expenses | 438 | 1,410 |
| Investment tax credits | 699 | – |
| Contingency provisions | – | 2,151 |
| | 6,173 | 6,816 |

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 9. Income Taxes (Continued)

| | 2000 | 1999 |
|---|---|---|
| | $ | $ |
| Short-term future income tax liabilities | | |
| Prepaid expenses | 328 | 261 |
| Gain on settlement of litigation and other gain | 122 | 1,068 |
| Investments | 17 | 42 |
| | 467 | 1,371 |
| Long-term future income tax liabilities | | |
| Investments | 79 | 112 |
| Capital assets | 25,809 | 26,775 |
| Goodwill | 736 | – |
| Research and development expenses | 31 | – |
| | 26,655 | 26,887 |

The Company's effective income tax rate differs from the combined statutory federal and provincial income tax rate in Canada. This difference arises from the following:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Combined basic rate applied to pre-tax income | 3,211 | 892 | 76 |
| Increase (decrease) in taxes resulting from: | | | |
| Large corporations tax | 35 | 29 | 26 |
| Difference with foreign tax rates | (131) | 24 | 67 |
| Manufacturing and processing deduction | – | – | (24) |
| Amortization of goodwill and other non-deductible items | 1,175 | 433 | 89 |
| Use of prior years' losses | – | (30) | (280) |
| Non-taxable items and other | (1,602) | – | (9) |
| Foreign withholding taxes | 699 | – | – |
| | 3,387 | 1,348 | (55) |

Operating losses of $4,787,000 can be carried forward until 2014. The Company believes that it is more likely than not that all of the operating losses carryforwards will be utilized prior to their expiration.

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*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 10. Investments

| | 2000 | 1999 |
|---|---|---|
| | $ | $ |
| Investments in companies subject to significant influence *(a)* | – | 1,081 |
| Investments in a private company, at cost | 1,156 | 1,156 |
| Investments in bonds, at amortized cost *(b)* | – | 1,654 |
| Other | 828 | 624 |
| | 1,984 | 4,515 |
| Investments receivable within one year | 146 | 1,654 |
| | 1,838 | 2,861 |

*(a) An amount of $701,361 as at September 30, 1999 comes from a company that operates in the unrelated field of plastic parts manufacturing. This investment was sold during the year 2000.*

| *(b)* | 2000 | 1999 |
|---|---|---|
| | $ | $ |
| Hydro-Québec, face value of CDN$1,850,000, 7.8%, ex rights, at a cost of $829,480 | – | 1,178 |
| Ville LaSalle, face value of CDN$702,000, 7.6% | – | 476 |
| | – | 1,654 |

## 11. Capital Assets

| | | | 2000 |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net |
| | $ | $ | $ |
| Land | 468 | – | 468 |
| Buildings | 3,669 | 619 | 3,050 |
| Furniture and equipment | 4,309 | 2,328 | 1,981 |
| Automotive equipment | 146 | 56 | 90 |
| Computer equipment | 1,151 | 641 | 510 |
| Leasehold and building improvements | 681 | 78 | 603 |
| Trademarks, trademark licenses and manufacturing rights | 174,847 | 13,411 | 161,436 |
| | 185,271 | 17,133 | 168,138 |

| | | | 1999 |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net |
| | $ | $ | $ |
| Land | 517 | – | 517 |
| Buildings | 3,802 | 543 | 3,259 |
| Furniture and equipment | 3,363 | 2,101 | 1,262 |
| Automotive equipment | 140 | 38 | 102 |
| Computer equipment | 1,052 | 530 | 522 |
| Leasehold and building improvements | 136 | 108 | 28 |
| Trademarks, trademark licenses and manufacturing rights | 90,740 | 5,158 | 85,582 |
| | 99,750 | 8,478 | 91,272 |

Acquisitions of capital assets amount to $85,173,050 ($888,435 in 1999 and $1,669,388 in 1998).

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*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 12. Other Assets

| | 2000 | | |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net |
| | $ | $ | $ |
| Goodwill | 23,568 | 2,328 | 21,240 |

| | 1999 | | |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net |
| | $ | $ | $ |
| Debt issue costs | 2,277 | 1,210 | 1,067 |
| Goodwill | 22,409 | 830 | 21,579 |
| | 24,686 | 2,040 | 22,646 |

## 13. Bank Loans

The bank loans are secured by an assignment of book debts and inventories as well as the Canadian trademarks, trademark licenses and manufacturing rights. The authorized bank loans are for a maximum of CDN$6,000,000 and of US$4,000,000. The bank loans bear interest at prime rate and are renewable annually. As at September 30, 2000, the prime rate is 7.5% (6.25% in 1999 and 7.25% in 1998) for the loans in Canadian dollars and 8.87% (8.5% in 1999) for the loans in U.S. dollars.

## 14. Accounts Payable

| | 2000 | 1999 |
|---|---|---|
| | $ | $ |
| Accounts payable | 3,059 | 3,791 |
| Accrued liabilities | 9,519 | 7,276 |
| Contingency provisions | 2,900 | – |
| Accrued dividend | 142 | – |
| Payable to a joint-venture *(a)* | – | 7,789 |
| | 15,620 | 18,856 |

*(a) As at September 30, 1999, a portion of $2,500,000 of the amount payable to a joint venturer consists in a note payable, without interest until October 15, 1999, the balance of the amount payable bears interest at 1% per month. The amount payable to a joint venturer is secured by the joint-venture's accounts receivable and inventories of $231,973.*

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 15. Notes Payable

During 1999, the Company borrowed CDN$133,084,550 from two subsidiaries of the Caisse de dépôt et placement du Québec, Sofinov, Société financière d'innovation Inc., a company's shareholder, and Capital d'Amérique CDPQ Inc. (hereafter collectively called "CDPQ") to finance the acquisition of Axcan Scandipharm during the last quarter of the year ended September 30, 1999. These notes payable are due on demand and bear interest at the rate of 11% except for an amount of CDN$40,000,000 that is without interest. Notwithstanding the fact that these notes payable are due on demand, the Company has agreed with CDPQ that these notes payable were to be reimbursed at the closing date as follows:

| | |
|---|---|
| CDN$40,000,000 | by the acquisition of a 40.4% interest in Axcan Scandipharm by CDPQ; |
| CDN$35,000,000 | by the proceeds from a senior debt; |
| CDN$58,084,550 | by the cash available in the Company at closing. |

Consequently, notes payable of a par value aggregating CDN$75,000,000 have been accounted for as long-term debt as at September 30, 1999.

On December 22, 1999, following a public offering of the Company, the Company reimbursed the CDN$40,000,000 note payable by the issuance of shares representing a 40.4% interest in Axcan Scandipharm and other notes payable amounting to CDN$58,084,550 in cash.

The same day, the Company acquired the 40.4% interest in Axcan Scandipharm.

The remaining notes payable amounting to CDN$35,000,000 were reimbursed in cash on June 29, 2000 by the proceeds of a second shares offering.

## 16. Long-Term Debt

| | 2000 | 1999 |
|---|---|---|
| | $ | $ |
| 9% loan, payable capital and interest in two fixed instalments of $6,000,000 and $4,000,000 payable on December 31, 2000 and 2001 respectively plus quarterly payments to be made as of January 31, 2000 and calculated as a percentage of LLC's net sales during the previous quarter. The interest is compounded daily. The balance of the capitalized principal and interest is due on December 31, 2004. This loan is secured by an assignment of the acquired interest and the LLC's assets. | 46,915 | – |
| Bank loans, prime rate plus 2.25% and 2.50%, secured by a movable hypothec on assets of a subsidiary having a net book value of $2,109,000 in 2000, payable in monthly instalments of $12,418, maturing in 2002 and 2005. | 309 | – |
| Notes payable, 9.52% to 19.84%, payable in monthly instalments, maturing on different dates until 2005. | 78 | – |
| 11% note payable to CDPQ *(a)* | – | 24,232 |
| Note payable to CDPQ *(b)* | – | 27,561 |
| 7.84% bank loan, secured by a first ranking immovable hypothec on a land and a building having a net book value of $627,000 in 1999, payable in monthly instalments of $8,293, principal and interest, maturing in September 2003 | – | 490 |
| 1.75% notes payable, due on June 30, 2000 *(c)* | – | 1,701 |
| 8.78% loan, payable in monthly instalments, maturing in 2001 | – | 14 |
| | 47,302 | 53,998 |
| Instalments due within one year | 10,614 | 5,719 |
| | 36,688 | 48,279 |

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 16. Long-Term Debt (Continued)

As at September 30, 2000, minimum instalments on long-term debt for the next five years are as follows:

| | $ |
|---|---|
| 2001 | 10,614 |
| 2002 | 8,624 |
| 2003 | 9,061 |
| 2004 | 9,537 |
| 2005 | 9,466 |

*(a) As mentioned in Note 15, this note payable was due on demand but the Company has primarily agreed with CDPQ to reimburse it with the proceeds from the senior debt.*

*(b) As mentioned in Note 15, this note payable was due on demand but the Company has agreed with CDPQ to reimburse it by issuing common shares of Axcan Scandipharm aggregating a 40.4% interest. Notwithstanding that this note payable was without interest, the Company recorded as financial expenses the share of Axcan Scandipharm net earnings to be disposed of.*

*(c) In connection with its expansion projects, on May 30, 1995, the Company obtained a loan under Quebec's immigrant-investor program in the amount of $1,701,000 consisting of notes. These notes were secured by irrevocable letters of credit. As security for the bank letters of credit, the Company has pledged the investment in bonds of a net book value of $1,654,000.*

## 17. Equity Component of Purchase Price

In April 2000, Axcan entered into a series of agreements with QLT PhotoTherapeutics Inc. ("QLT"). These agreements provided for the purchase by Axcan of PHOTOFRIN, a light sensitive compound administered to patients and activated by a laser and the purchase by QLT of 1,283,333 common shares of Axcan for a total cash consideration of CDN$19,250,000 (US$13,007,000). These transactions closed on June 8, 2000.

The purchase price of CDN$39,250,000 (US$26,100,000) was paid by CDN$21,750,000 (US$14,800,000) in cash and by CDN$13,500,000 (US$9,118,000) with the issuance of 13,500,000 Series A preferred shares of the capital stock. The balance of CDN$4,000,000 (US$2,704,000) will be payable four years after the closing or upon the receipt of a specific approval from a regulatory authority, in cash or in common shares, at Axcan's sole discretion.

The balance of the purchase price of $2,704,000 has been presented as equity component.

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 18. Capital Stock

**Authorized**

Unlimited number of shares without par value

Common shares

Preferred shares, issuable in series, rights, privileges and restrictions determined at the creation date

During the year 2000, the Company created two series of preferred shares as follows:

14,175,000 Series A, non voting, annual preferential cumulative dividend of 5%, redeemable on or prior to June 8, 2001 at CDN$1.00 per share payable at the option of the Company in cash or by the issuance of common shares or in any combination of cash and common shares.

12,000,000 Series B, non voting, redeemable on the fifth anniversary of their issuance at CDN$1.00 per share payable in cash or by the issuance of common shares at the option of the Company, convertible into common shares at the holder's option on the basis of one common share for each 15 Series B preferred shares.

The issued and fully paid capital stock is as follows:

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | Number | Amount |
| **Common shares** | | $ | | $ | | $ |
| Balance, beginning of year | 17,951,553 | 55,445 | 15,761,700 | 44,754 | 15,264,000 | 40,588 |
| Shares issued following public offerings *(1)* | 14,331,668 | 71,314 | – | – | – | – |
| Shares issued following private investors' subscription *(1)* | 1,383,333 | 13,443 | 2,103,787 | 10,204 | 450,000 | 3,971 |
| Shares issued following the exercise of the underwriters' option *(1)* | 787,500 | 3,295 | – | – | 40,000 | 163 |
| Shares issued pursuant to the stock option plan *(1)* | 52,200 | 290 | 9,000 | 37 | 7,700 | 32 |
| Shares issued for the acquisition of assets and other | – | – | 77,066 | 450 | – | – |
| Balance, end of year | 34,506,254 | 143,787 | 17,951,553 | 55,445 | 15,761,700 | 44,754 |
| **Series A preferred shares** | | | | | | |
| Balance, beginning of year | – | – | – | – | – | – |
| Shares issued for the acquisition of assets | 13,500,000 | 9,118 | – | – | – | – |
| Balance, end of year | 13,500,000 | 9,118 | – | – | – | – |
| Total | | 152,905 | | 55,445 | | 44,754 |

*(1) Issued for cash*

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 18. Capital Stock (Continued)

**Restriction on payment of dividends on common shares**

The company may not pay dividends on common shares (other than stock dividends payable in common shares) without the approval of holders of at least two thirds of the Series A and B preferred shares issued and outstanding.

**Common stock option plan**

The common stock option plan is intended for eligible directors, principal senior executives and employees. The number of stock options that can be granted under this plan cannot exceed 1,900,000 and 500,000 as at September 30, 2000 and 1999 respectively.

Granted stock options are for 1,364,348 and 353,600 common shares as at September 30, 2000 and 1999 respectively and may be exercised at prices between $3.98 and $8.10. These options may be exercised at a rate of 20% per year and expire ten years after the granting date.

The changes to the number of stock options outstanding are as follows:

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Number of options | Weighted Average Exercise Price | Number of options | Weighted Average Exercise Price | Number of options | Weighted Average Exercise Price |
| | | $ | | $ | | $ |
| Balance, beginning of year | 353,600 | 5.80 | 302,600 | 5.89 | 290,300 | 5.23 |
| Granted | 1,246,063 | 7.11 | 60,000 | 5.07 | 60,000 | 7.65 |
| Exercised | (52,200) | 5.59 | (9,000) | 4.08 | (47,700) | 4.08 |
| Cancelled | (183,115) | 7.26 | – | – | – | – |
| Balance, end of year | 1,364,348 | 6.56 | 353,600 | 5.80 | 302,600 | 5.89 |

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Options exercisable at end of year: | 125,400 | 124,600 | 80,040 |

The information about stock options outstanding at September 30, 2000 is as follows:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| | Number | Weighted average remaining contractual life | Weighted average exercise price | Number | Weighted average exercise price |
| | | | $ | | $ |
| $3.98 – $5.10 | 209,400 | 7.1 | 4.25 | 81,400 | 4.12 |
| $5.11 – $6.20 | 22,000 | 5.6 | 5.24 | 17,000 | 5.24 |
| $6.21 – $7.70 | 1,127,948 | 9.2 | 7.01 | 24,000 | 7.39 |
| $7.71 – $8.20 | 5,000 | 6.9 | 8.10 | 3,000 | 8.10 |
| | 1,364,348 | 8.8 | 6.56 | 125,400 | 4.99 |

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*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 19. Financial Information Included In The Consolidated Statement Of Earnings

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| **a) Financial expenses** | | | |
| Interest on notes payable to CDPQ | 2,932 | 1,484 | – |
| Other interest on long term debt | 4,029 | – | 17 |
| Interest on short term debt and bank charges | 215 | 353 | 27 |
| Financing fees | 1,278 | – | – |
| Foreign exchange losses | 158 | – | – |
| Amortization of deferred debt issue expenses | 483 | 963 | – |
| | 9,095 | 2,800 | 44 |
| **b) Other information** | | | |
| Settlement of litigation | – | 1,610 | – |
| Share in net loss of companies subject to significant influence | 125 | 186 | 75 |
| Depreciation of capital assets | 9,124 | 2,779 | 1,867 |
| Amortization of other assets | 1,991 | 1,330 | 135 |
| Amortization of bond discount | (52) | (81) | (81) |
| Amortization of deferred exchange loss | – | – | 60 |
| Tax credits applied against research and development expenses | 892 | 522 | 508 |

During 2000, the Company increased its estimated accrual for contract rebates, chargebacks and for products returns by a total amount of $2,288,531.

## 20. Financial Information Included in the Consolidated Statement of Cash Flows

a) Changes in working capital items from continuing operations

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Accounts receivable | (1,739) | (4,975) | (761) |
| Income taxes receivable | (237) | (3,125) | 163 |
| Inventories | (1,837) | (4,583) | (1,064) |
| Prepaid expenses | (850) | (328) | (114) |
| Payable to a joint venturer | (955) | 1,903 | 5,274 |
| Accounts payable | (432) | (3,135) | (360) |
| Accrued liabilities | (235) | 4,524 | 1,017 |
| Income taxes payable | 611 | (591) | 362 |
| | (5,674) | (10,310) | 4,517 |

b) Cash flows relating to interest and income taxes of operating activities are as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Interest received | 1,399 | 1,040 | 667 |
| Interest paid | 8,945 | 28 | 100 |
| Income taxes paid | 1,027 | 180 | 195 |

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 21. joint-ventures

The following accounts represent the shares of the Company in the joint-ventures:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Current assets | 112 | 3,113 | 2,157 |
| Total assets | 619 | 6,639 | 4,962 |
| Current liabilities | 177 | 9,095 | 6,840 |
| Total liabilities | 177 | 9,581 | 7,464 |
| Revenue | 536 | 4,032 | 1,449 |
| Expenses | 617 | 5,261 | 4,157 |
| Earnings from discontinued operations | 1,796 | 484 | 249 |
| Net earnings (loss) | 1,715 | (745) | (2,459) |
| Cash flows from: | | | |
| Operations | 385 | 101 | 349 |
| Financing | (12) | (154) | 556 |
| Investment | 4,588 | 35 | (229) |

The Company's share of undistributed earnings of the equity of one of the joint-ventures amounted to $1,687,000 as at September 30, 1999.

## 22. Segmented Information

Until September 1997, the Company operated principally in Canada. At that date, the Company began selling new products in the United States. No customer represents more than 10% of the Company's revenue except for an U.S. distributor and one customer (two in 1999 and 1998) for which the sales represented 36.8% of revenue for the year ended September 30, 2000 (28.5% and 24.1% in 1999 and 1998).

Purchases from one (two in 1999) supplier represent approximately 39% of the cost of goods sold for the year ended September 30, 2000 (34% in 1999).

The Company considers that it operates in a single field of activity, the pharmaceutical industry, since its other activities do not account for a significant portion of segment assets.

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 22. Segmented Information (Continued)

The Company operates in the following geographic segments:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Revenue | | | |
| Canada | | | |
| Domestic sales | 16,001 | 14,976 | 13,078 |
| Foreign sales, mainly in the United States | 7,039 | 4,564 | 2,877 |
| United States | | | |
| Domestic sales | 64,446 | 20,004 | 11,326 |
| Foreign sales | 463 | 270 | – |
| Inter-segment | (463) | (2,265) | (2,853) |
| | 87,486 | 37,549 | 24,428 |
| Earnings (loss) before financial expenses, interest income, depreciation and amortization, income taxes and discontinued operations | | | |
| Canada | 3,009 | 4,084 | 2,538 |
| United States | 23,863 | 2,973 | (902) |
| | 26,872 | 7,057 | 1,636 |
| Depreciation and amortization | | | |
| Canada | 998 | 923 | 991 |
| United States | 9,524 | 2,098 | 949 |
| | 10,522 | 3,021 | 1,940 |
| Capital assets and goodwill | | | |
| Canada | 13,938 | 13,108 | 12,518 |
| United States | 145,304 | 99,743 | 14,354 |
| Other | 30,136 | – | – |
| | 189,378 | 112,851 | 26,872 |
| Total assets | | | |
| Canada | 140,324 | 57,584 | 53,329 |
| United States | 195,929 | 159,374 | 19,445 |
| Other | 30,819 | – | – |
| Inter-segment | (113,020) | (11,580) | (12,350) |
| | 254,052 | 205,378 | 60,424 |

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 23. Financial Instruments

**Fair value of the financial instruments on the balance sheet:**

The estimated fair value of the financial instruments is as follows:

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Fair value | Carrying amount | Fair value | Carrying amount |
| | $ | $ | $ | $ |
| Assets | | | | |
| Cash and cash equivalents | 11,135 | 11,135 | 27,559 | 27,559 |
| Short-term investments | 9,787 | 9,787 | 19,300 | 19,300 |
| Accounts receivable | 14,122 | 14,122 | 13,622 | 13,622 |
| Investments in a private company | 1,156 | b) | 1,156 | b) |
| Investments in bonds | – | – | 1,654 | 1,673 |
| Other investments | 828 | 828 | 624 | 624 |
| Liabilities | | | | |
| Accounts payable | 15,620 | 15,620 | 18,856 | 18,856 |
| Notes payable | – | – | 40,224 | 40,224 |
| Long-term debt | 47,302 | 45,990 | 53,998 | 53,998 |

The following methods and assumptions were used to calculate the estimated fair value of the financial instruments on the balance sheet.

**a) Financial instruments valued at carrying amount**

The estimated fair value of certain financial instruments shown on the balance sheet is equivalent to their carrying amount because they are realizable in the short-term or items whose carrying amount approximates the fair value. These financial instruments include cash and cash equivalents, short-term investments, accounts receivable, other investments, accounts payable and notes payable.

**b) Investments in a private company**

The fair value of investments in a private company was not readily determinable.

**c) Investments in bonds**

The fair value of investments in bonds is based on the current bid price at the balance sheet date.

**d) Long-term debt**

The fair value of long-term debt has been established by discounting the future cash flows at interest rates corresponding to those the Company would currently obtain for loans with similar maturity dates and terms.

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 24. Commitments and Contingencies

**a) Commitments**

The Company has entered into non-cancelable operating leases expiring on different dates until March 14, 2013 for the rental of office space, automotive equipment and equipment. One of the office space leases contains an escalation clause providing for additional rent and another one contains a renewal option for an additional five-year period.

Minimum future lease payments under these operating leases are as follows:

| | $ |
|---|---|
| 2001 | 751 |
| 2002 | 604 |
| 2003 | 414 |
| 2004 | 411 |
| 2005 | 408 |
| Thereafter | 316 |
| | 2,904 |

**b) Contingencies**

The subsidiary Axcan Scandipharm is involved in several lawsuits arising in the normal course of business. Lawsuits have been filed and claims have been asserted against Axcan Scandipharm and certain suppliers stemming from allegations that, among other things, certain products caused colonic strictures. Axcan Scandipharm's insurance carrier is defending the subsidiary in the filed lawsuits and has agreed to defend Axcan Scandipharm if the asserted product liability claims are filed as lawsuits. In addition, suppliers have claimed a right to recover amounts paid defending and settling these claims.

During the year 2000, the Company reduced its estimate of the accrual related to these claims from $5,378,231 to $2,900,000 which is included in selling and administrative expenses in the accompanying statement of earnings. As at September 30, 2000, the accrual for contingencies of $2,900,000 has been classified as a current liability. While the Company believes that the insurance coverage and provisions taken to date are adequate, an adverse determination of any such claims or of any future claims could exceed insurance coverage and amounts currently accrued.

**c) Milestone payments**

The agreements with QLT relating to the purchase of PHOTOFRIN provided for milestone payments to be made by Axcan to QLT that could reach a maximum of CDN$20,000,000 upon receipt of certain regulatory approvals for specific or additional indication for PHOTOFRIN or other conditions. Each milestone payment shall be made at the option of the Company either in cash or in Series B preferred shares or in a combination of cash and preferred shares provided that at least one-half of the milestone payable shall be paid in cash. During the year CDN$5,000,000 (US$3,378,378) was paid by Axcan in cash upon receipt of regulatory approval to market a new laser for use in conjunction with PHOTOFRIN.

**d) Royalties**

Nets sales of certains products of the Company are subject to royalties payable to unrelated third parties.

In particular, the Company must pay to CR Associates a 5% royalty on net sales of products covered under two agreements for the exclusive rights to market ULTRASE and ADEKs for a ten-year term ending December 2001.

Axcan also has to pay 5% of worldwide sales of PHOTOFRIN with a maximum of $500,000 per year and a maximum total aggregate of $3,108,245 until December 2007. As at September 30, 2000, an amount of $92,244 has been accrued.

Royalties amounting to $3,022,414, $718,031 and $217,210 respectively for years ended September 30, 2000, 1999 and 1998 were charged to earnings.

**e) Licensing**

During the year Axcan entered into a new licensing agreement to market a new generation of pancrelipase minitablets. Axcan will pay fees totaling $3,500,000 over a period of three years from the date of the agreement, contingent on the attainment of certain milestones in connection with development of new formulations of minitablets. As at September 30, 2000, the Company paid $1,250,000 of these fees. Axcan will pay royalties of 6% on the first $30,000,000 of annual sales and 5% on annual sales in excess of $30,000,000 subject to minimum royalty payments of $750,000, $1,000,000 and $1,500,000 in the first three years of the agreement, respectively.

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 24. Commitments and Contingencies (Continued)

Axcan also entered into licensing with the Children's Hospital Research Foundation ("CHRF") for a serie of sulfated derivatives of ursodeoxycholigic acid compounds" ("SUDCA"). Axcan had paid $589,000 in cash; the Company will also pay milestones for a maximum amount of $425,000 when SUDCA will be validated and a bonus when certains conditions will be meet; finally, Axcan will pay royalty based on sales.

**f) Employee benefit plan**

A subsidiary of the Company has a defined contribution plan (the "Plan") for its US employees. Participation is available to substantially all US employees. Employees may contribute up to 15% of their gross pay and up to limits set by the US Internal Revenue Service. During the year, the Board of Directors approved and the Company paid a contribution to the Plan totaling $150,514.

## 25. Summary of Differences between Generally Accepted Accounting Principles in Canada and in the United States

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) which, in the case of Axcan Pharma, conform in all material respects with GAAP in the United States (U.S. GAAP), except as set forth below:

**a) Earnings and balance sheet adjustments**

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| **Earnings adjustments:** | | | |
| Net earnings in accordance with Canadian GAAP | 6,736 | 1,412 | 1,047 |
| Prepaid advertising costs *(1)* | (211) | (269) | (92) |
| Deferred exchange loss on translation of long-term debt *(2)* | – | – | 6 |
| Financial expenses *(3)* | (701) | (795) | – |
| Amortization of new product acquisition costs *(5)* | 50 | 216 | 42 |
| Income tax impact of the above adjustments | 62 | 102 | 17 |
| Difference between the convenience and the current rate methods *(4)* | – | (14) | 14 |
| Net earnings in accordance with U.S. GAAP | 5,936 | 652 | 1,034 |
| Earnings per share in accordance with U.S. GAAP | | | |
| Earnings from continuing operations | 0.15 | 0.01 | 0.02 |
| Earnings from discontinued operations | 0.07 | 0.03 | 0.05 |
| Net earnings | 0.22 | 0.04 | 0.07 |

Fully diluted earnings per share has not been disclosed as the exercise of options would have no material effect on the earnings per share.

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*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 25. Summary of Differences between Generally Accepted Accounting Principles in Canada and in the United States (Continued)

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Canadian GAAP | U.S. GAAP | Canadian GAAP | U.S. GAAP |
| | $ | $ | $ | $ |
| **Balance sheet adjustments:** | | | | |
| Current assets *(1) (4) (7)* | 56,663 | 55,690 | 81,783 | 77,946 |
| Investments *(4) (7)* | 1,838 | 2,280 | 2,861 | (189) |
| Capital assets *(4) (5) (7)* | 168,138 | 167,485 | 91,272 | 89,950 |
| Future income tax asset *(4)* | 6,173 | 6,173 | 6,816 | 4,354 |
| Other assets | | | | |
| Debt issue costs *(4)* | – | – | 1,067 | 1,067 |
| Goodwill *(3) (4) (7)* | 21,240 | 19,315 | 21,579 | 21,337 |
| Current liabilities *(1) (4) (7)* | 28,423 | 27,909 | 66,297 | 56,940 |
| Future income tax liability *(4) (5)* | 26,655 | 26,419 | 26,887 | 26,581 |
| Long-term debt *(3) (4) (7)* | 36,688 | 39,392 | 48,279 | 48,588 |
| Contingency provisions | – | – | 5,378 | 5,378 |
| Non-controlling interest | 556 | 556 | – | – |
| Shareholders' equity | | | | |
| Equity component of purchase price *(8)* | 2,704 | – | – | – |
| Capital stock *(4) (6)* | 152,905 | 150,900 | 55,445 | 57,005 |
| Retained earnings *(1) (2) (3) (4) (5) (6) (7)* | 7,195 | 10,997 | 4,166 | 5,203 |
| Accumulated foreign currency translation adjustments *(4)* | (1,074) | (5,230) | (1,074) | (5,230) |

*(1) Under Canadian GAAP, prepaid advertising costs are deferred and amortized over a two-year period. Under U.S. GAAP, these costs are included in earnings.*

*(2) Under Canadian GAAP, the exchange loss arising on the translation, at exchange rates prevailing on the balance sheet date, of long-term repayable in a foreign currency is deferred and amortized over the remaining life of the related debt. Under U.S. GAAP, such exchange losses are included in earnings.*

*(3) Under Canadian GAAP, the share of the 40.4% interest of CDPQ in Axcan Scandipharm earnings has been recorded as financial expenses. Under U.S. GAAP, additional financial expenses should be recorded. The additional financial expenses charged in earnings in 2000 and 1999 have brought a decrease in goodwill.*

*(4) As mentioned in Note 2, the Company adopted on October 1, 1999, the U.S. dollar as the principal currency of measurement. Under Canadian GAAP, prior years' financial statements are presented in U.S. dollars in accordance with a translation of convenience method using the closing exchange rate at September 30, 1999 of U.S. $0.68 per CDN$1. Under U.S. GAAP, prior years' financial statements are translated according to the current rate method using the year-end rate or the rate in effect at the transaction dates, as appropriate.*

*(5) Under Canadian GAAP, the new product development costs identified upon the acquisition of subsidiaries are deferred and amortized from the date of commencement of commercial production. Under U.S. GAAP, these costs that represent in process research and development are included in earnings as at the date of acquisition as no alternative future use has been established.*

*(6) Under Canadian GAAP, share issuance expenses are charged directly to retained earnings. Under U.S. GAAP, the expenses are deducted from the consideration received. The net amount is applied against the capital stock account.*

*(7) As required by Canadian GAAP, the Company accounts for its investment in joint-ventures by the proportionate consolidation method (Note 21). Under U.S. GAAP, these investments would be accounted for by the equity method. This difference does not impact earnings or shareholders' equity.*

*(8) Under Canadian GAAP, the purchase price payable in cash or in common shares, at Axcan's sole discretion, is presented in the shareholders' equity. Under U.S. GAAP, this amount is recorded as a long-term debt.*

*Amounts in the tables are stated in thousands of U.S. dollars, except per share amounts.*

## 25. Summary of Differences between Generally Accepted Accounting Principles in Canada and in the United States (Continued)

*(9) Under Canadian GAAP, the research and development tax credits are applied against research and development expenses. Under U.S. GAAP, these tax credits would be applied against income taxes.*

*(10) Under Canadian GAAP, short-term investments are recorded at cost. Under U.S. GAAP, securities available for sale are recorded at their fair market value, unrealized gains or losses are recorded separately in shareholders' equity. As at September 30, 2000 and 1999, there is no unrealized gain or loss.*

**b) Supplementary disclosures**

(1) Accounting for stock-based compensation

Under U.S. GAAP, the Company has elected to continue to measure compensation costs related to awards of stock options using the intrinsic value based method of accounting. Under Statement of Financial Accounting Standards (SFAS) No. 123, the Company is also required to make pro-forma disclosures of net earnings and basic earnings per share and diluted earnings per share as if the fair-value-based method of accounting had been applied.

The fair value of granted stock options was estimated with the Black-Scholes model of evaluation of the price of options using an expected life of six years, an interest rate without risk of 6.2%, 5.5% and 5.34% for the years ended September 30, 2000, 1999 and 1998 and a volatility of 50% in 2000, 45% in 1999 and 40% in 1998.

The Company's net earnings, basic earnings per share and diluted earnings per share would have been reduced for the years ended September 30, 2000, 1999 and 1998 on a pro-forma basis, as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Pro-forma net earnings | 709 | 200 | 158 |
| Pro-forma basic earnings per share | 0.03 | 0.01 | 0.01 |
| Pro-forma diluted earnings per share | 0.03 | 0.01 | 0.01 |

The average weighted fair value of granted stock options was as at September 30, 2000, 1999 and 1998 $4.04, $2.61 and $3.65.

(2) Consolidated cash flows

Under U.S. GAAP, the cash flow from the dividends from a company subject to significant influence would be classified as an investing activity rather than as an operating activity, as it is under Canadian GAAP.

(3) Consolidated comprehensive income

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | $ | $ | $ |
| Net earnings in accordance with U.S. GAAP | 5,936 | 652 | 1,034 |
| Foreign currency translation adjustments | – | 816 | (4,811) |
| Consolidated comprehensive income (loss) | 5,936 | 1,468 | (3,777) |

(4) Consolidated statement of earnings

U.S. GAAP do not recognize the disclosure of a subtotal of the earnings before financial expenses, interest income, depreciation and amortization and income taxes in the consolidated statements of earnings.

## 26. Reclassifications

Certain items in the 1999 and 1998 financial statements have been reclassified to conform to the current presentation.

# Glossary of technical terms

*The text on the following technical terms reproduced in this report is explanatory only and does not in any way modify the meanings of such terms.*

**Barrett's Esophagus:** a condition that results from prolonged heartburn, which causes the lining of the esophagus to be converted into tissue similar to that which lines the stomach.

**Cholesterol:** can cause hardening of the arteries (arteriosclerosis), while concentration in bile can lead to the formation of gallstones.

**Cirrhosis:** disease of the liver, originating from many causes, and characterized by a progressive replacement of liver cells by scarring tissue.

**Colon:** large intestine.

**Colorectal adenomateous polyps:** polyps that are considered precursors to colorectal cancer. Several epidemiological studies have already shown that dietary factors (such as fiber, fat and calcium) can influence the risk of colorectal cancer. Changes in the fecal bile acid milieu also play an important role in this risk. Therefore, modification of the concentrations of certain fecal bile acids may protect against the recurrence of colorectal adenomateous polyps.

**Crohn's Disease (CD):** inflammatory disease affecting the wall of the gastrointestinal tract. CD can affect any part of the gastrointestinal tract but mostly affects the ileum, the last portion of the small bowel.

**Cystic Fibrosis:** congenital disease characterized by excessive secretions of certain glands, and causing pancreatic insufficiency and pulmonary disorders. The average life span of these patients is approximately 32 years.

**Distal:** part of the colon that is closest to the rectum.

**Duodenum:** first part of the small intestine attached to the end of the stomach.

**Exocrine Pancreatic Insufficiency:** decreased production and release of the enzymes produced in the pancreas, leading to digestive problems.

**Food and Drug Administration (FDA):** United States regulatory body overseeing the development, the manufacture, use and sale of drugs in the US.

**Gallstone Dissolution:** gallstones are stones which form when the concentrations of cholesterol or bilirubin (yellow pigments found in bile) exceed the limited capacity of the bile for these substances.

**Gastric Cancer:** cancer of the cell lining of the gastric mucose.

**Gastroenterology:** Internal medicine sub-specialty devoted to the diseases and disorders of the digestive system.

**Health Canada:** Canadian regulatory body overseeing the development, the manufacture, use, and sale of drugs in Canada.

***Helicobacter pylori:*** *Hp* is a spiral shaped micro-organism found in the gastric mucuso. Its presence is correlated with gastritis, as well as gastric and duodenal ulcers. *Hp* is known to be the most important factor in causing peptic ulceration, and is formally classified as a Category 1 (definite) human carcinogen by the World Health Organization. Once a diagnosis of *Hp* infection has been established, eradication of the bacterium should be prescribed in all peptic ulcer patients to reduce the rate of ulcer recurrence.

**Hepatitis:** inflammation of the liver due to infection or toxins.

**High Grade Dysplasia:** as associated with Barrett's Esophagus, it is a condition that results from prolonged acid reflux (heartburn) which causes the lining of the esophagus to be converted into tissue similar to that which lines the stomach. This transformation makes the esophageal tissue more susceptible to cancer.

**Inflammatory Bowel Diseases (IBDs):** chronic diseases of unknown cause characterized by inflammation of portions of the gastrointestinal tract. Ulcerative colitis, ulcerative proctitis (a distal form of ulcerative colitis) and Crohn's disease constitute the group of illnesses referred to as idiopathic inflammatory bowel diseases (IBDs). The course of IBDs is a succession of acute attacks followed by periods of remission. There are no cures for IBDs and the goals of therapy are to reduce the symptoms during acute attacks and to maintain remission when the disease is under control.

**Liver:** organ located in the top right part of the abdominal cavity, and connected to the digestive tract. It secretes bile that is excreted in the duodenum, which facilitates digestion of food in the small intestine. It plays a key role in the processing and storage of various products of absorption.

**New Drug Application (NDA):** a document containing all pre-clinical, clinical and CMC data collected on a drug. NDAs are submitted to the FDA by manufacturers in order to obtain approval to market new chemical entities in the United States.

**New Drug Submission (NDS):** a document containing all pre-clinical, clinical and CMC data collected on a drug. NDSs are submitted to the Therapeutic Products Program of Health Canada by manufacturers in order to obtain approval to market new chemical entities in Canada.

**Non-alcoholic steatohepatitis (NASH):** non-alcoholic steatohepatitis is characterized by elevated blood levels of liver enzymes and the accumulation of fat in the liver and fibrosis. Untreated, this disease can progressively lead to cirrhosis and death. This condition is frequently found in obese patients, type II diabetics and patients with hypertriglyceridemia. There are no symptoms specific to this disease (approximately 30% to 50% of patients complain of fatigue or abdominal pain), and so it often remains undiagnosed. No established treatment exists for this potentially serious disorder. Past treatment has only included weight loss, which is often difficult for subjects to achieve and sustain.

**Orphan Drug:** designation granted by the FDA. This process is designed to encourage development of drugs intended for the treatment of rare diseases or conditions (affecting less than 200,000 patients for the disease in the United States). The measures include the grant of a seven-year exclusivity in the marketing of a qualified product.

**Pancreas:** abdominal gland located behind the stomach and connected to the gastrointestinal tract that secretes pancreatic juice to aid digestion (pancreatic enzymes) and insulin, an essential hormone for the metabolism of sugars.

**Pancreatic Juice:** alkaline secretion of the pancreas containing enzymes that aid in the digestion of protein, carbohydrates, and fats.

**Pancreatitis:** inflammation of the pancreas.

**Placebo:** inactive substances used in experimental drug studies.

**Polyp:** small tumor-like growth that projects from a mucus membrane surface (i.e. colon or rectum).

**Primary Biliary Cirrhosis (PBC):** a chronic cholestatic liver disease that progresses slowly towards a terminal phase characterized by jaundice, signs of decompensated cirrhosis, ascites and variceal bleeding. The prognosis averages 7 to 12 years from diagnosis to death or liver transplant. Treatment of PBC has included several immuno-suppressive drugs that have shown variable therapeutic responses and relatively poor safety profiles.

**Primary Hypercholesterolemia (HC):** cholesterol plays a key role in several body functions, since it is used to form bile acids, several steroid hormones (like testosterone) and acts upon cell membranes. However, epidemiological, clinical and genetic studies have established that high serum total cholesterol level, a state known as hypercholesterolemia, is causally related to coronary arteriosclerosis and increased risk of coronary artery disease.

**Primary Sclerosing Cholangitis (PSC):** primary sclerosing cholangitis (PSC) is a liver disorder characterized by an inflammatory and sclerosing process leading to a progressive reduction in the diameter of the bile ducts. Its progressive course generally leads to liver cirrhosis, portal hypertension and often death, as the bile normally flowing out of the liver instead accumulates there, resulting in an alteration of liver cells. The average survival is four to ten years following diagnosis, and a liver transplant is the only known treatment to avoid death.

**Rectum:** last portion of the large intestine extending to the anal canal.

**Stomach:** portion of the alimentary tract involved in the process of digestion.

**Steatorrhea:** abnormally high fecal excretion of non-digestive fat.

**Therapeutic Products Program (TPP):** the Canadian regulatory body that oversees the development, manufacture, sale and use of drugs in Canada.

**Ulcer:** necrotic lesion characterized by a crater-like erosion of the wall of the stomach (gastric ulcer) or the duodenum (duodenal ulcer), often associated with painful symptoms.

**Ulcerative Colitis/Proctitis:** chronic inflammatory disease affecting the inner mucus membrane of the colon, more often the distal portions of the colon (i.e the rectum and sigmoid).

**Ursodiol (ursodeoxycholic acid):** naturally occurring bile acid, present as a minor fraction of the total human bile acids and in greater concentrations in the bile of certain animal species such as bears. Ursodiol is a drug indicated for the treatment of different diseases such as dissolution of gallstones, primary biliary cirrhosis and other cholestatic liver diseases.

# Quarterly Results

FISCAL YEAR ENDED SEPTEMBER 30, 1999

*In thousands of US dollars, except per share amounts.*

| Quarter ended | Dec. 31, 98 | Mar. 31, 99 | Jun. 30, 99 | Sept. 30, 99 | Fiscal 99 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Revenue | 5,693 | 6,700 | 6,820 | 18,336 | 37,549 |
| Net earnings (loss)* | (194) | (35) | 285 | 943 | 999 |
| Net earnings (loss) per share* | (0.01) | (0.00) | 0.02 | 0.05 | 0.06 |

FISCAL YEAR ENDED SEPTEMBER 30, 2000

*In thousands of US dollars, except per share amounts.*

| Quarter ended | Dec. 31, 99 | Mar. 31, 00 | Jun. 30, 00 | Sept. 30, 00 | Fiscal 00 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Revenue | 25,278 | 15,606 | 21,903 | 24,699 | 87,486 |
| Ner earnings (loss)* | 1,858 | (754) | 1,411 | 2,425 | 4,940 |
| Ner earnings (loss) per share* | 0.09 | (0.03) | 0.05 | 0.07 | 0.18 |

* from continuing operations

# Quarterly Common Share Price

FISCAL YEARS ENDED SEPTEMBER 30, 2000 AND 1999

*Montreal Exchange, Toronto Stock Exchange and NASDAQ National Market*.*

| | 1st Quarter | | 2nd Quarter | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| High (CDN$) | 7.95 | 11.00 | 14.95 | 10.95 |
| Low (CDN$) | 5.75 | 6.50 | 5.95 | 6.70 |
| Volume | 1,886,522 | 2,035,710 | 4,904,584 | 771,011 |

| | 3rd Quarter | | | 4th Quarter | | |
|---|---|---|---|---|---|---|
| | 2000 | 2000 (NASDAQ – US $) | 1999 | 2000 | 2000 (NASDAQ – US $) | 1999 |
| High (CDN$) | 11.25 | 7 | 7.60 | 18.50 | 16.1/4 | 9.75 |
| Low (CDN$) | 8.70 | 6.7/8 | 5.70 | 9.45 | 6.1/2 | 6.65 |
| Volume | 2,613,440 | 1,900 | 1,828,288 | 5,595,362 | 807,600 | 1,219,176 |

** Pursuant to an agreement between the Toronto Stock Exchange and the Montreal Exchange, trading in Axcan shares on the Montreal Exchange stopped in December, 1999, and the Toronto Stock Exchange became the sole market trading place for Axcan shares in Canada. On June 28, 2000, Axcan's shares also began trading on the NASDAQ National Market under the ticker symbol "AXCA".*

# Corporate History

1982 • Foundation of the company by Léon F. Gosselin (51%) and Dr. Herbert Falk (49%).

1986 • Approval of the first product to be sold in Canada, **SALOFALK** a mesalamine (5-ASA) compound for the treatment of ulcerative colitis.

1992 • Purchase by Axcan Holdings Ltd. (held by Léon Gosselin) of the 49% interest held by Dr. Falk: the Company becomes 100% Canadian.

1993 • Private placement ($5 million) involving the **Caisse de Dépôt et Placement du Québec**, which acquires 25% of the Company's share capital.

1995 • *December* – Initial Public Offering: issue of four million common shares at CDN $6.00 each. The shares are traded on the Montreal and Toronto Stock Exchanges, under the symbol AXP.

1996 • *September* – Announcement of the acquisition of VIOKASE, a pancrelipase compound to treat exogenic pancreatic insufficiency, from Wyeth-Ayerst Canada Inc. The drug is to be marketed in Canada.

1997 • *January* – Second Public Offering with the issue of CDN $17,356,950 in special warrants exchangeable for common shares.

• *September* – Acquisition of the gastroenterology product line distributed in Canada by Jouveinal Inc., which includes **MODULON** and **LANSOŸL** as well as five products for the treatment of cystic fibrosis originally licensed from Scandipharm Inc. Axcan also purchases the right to sell **VIOKASE** in the United States

• *December* – Receipt of the FDA approval for **URSO** 250 tablets for the treatment of PBC.

1998 • *August* – Receipt of Health Canada approval for the use of **SALOFALK** enteric-coated tablets for preventing a relapse of Crohn's disease in patients having undergone bowel resection.

• *October* – Receipt of Health Canada approval for the marketing of **URSO** 250 tablets in Canada. These tablets replace the 250 mg capsules previously sold under the **URSOFALK** brand.

1999 • *May* – Sale of Axcan Limited, Axcan's **PROTECTAID** subsidiary, and acquisition of full ownership of the *Helicobacter pylori* single capsule patent.

• *August* – Authorization by the FDA to market mesalamine (5-ASA) suppositories in the United States on the basis of an urgent need to temporarily replace a similar product that was removed from the American market.

• *August* – Acquisition of Scandipharm, based in Birmingham, Alabama. Axcan becomes the first Canadian-based pharmaceutical public company with its own US sales and marketing organization.

• *August* – Conclusion of the purchase of 50% of Bonne Santé of Poland and Czet Pharma Inc., its Canadian affiliate. These two companies are active in Poland in the distribution of pharmaceutical products.

• *October* – Purchase of Schwarz Pharma Inc.'s 50 % interest in Axcan URSO LLC, created in January 1997 for the purpose of marketing **URSO 250** in the United States. With its sales force in the U.S., Axcan can now successfully market **URSO 250** independently in the United States.

• *December* – Issuance of 8,437,500 common shares providing gross proceeds of CDN $50.6 million. New shareholders include Wellington Asset Management, Montrusco Bolton and Pembroke Asset Management. Net proceeds of this offering allow Axcan to reduce the indebtedness due to the acquisition of Scandipharm.

• *December* – Private placement with Dynamic QSSP Fund, which subscribed for 100,000 common shares of Axcan at a price of CDN $6.41 per share for a total consideration of CDN $641,000.

2000 • *March* – Appointment of Mr. David W. Mims as Executive Vice President and Chief Operating Officer of the Company. Mr. Mims joined Axcan earlier in the year as a member of the Board of Directors.

• *June* – Acquisition of **PHOTOFRIN** from QLT Inc. **PHOTOFRIN** is the first photosensitizer commercially approved for use in photodynamic therapy, an innovative medical therapy based on the use of light-activated drugs.

• *June* – Sale of Axcan's 50% interest in Althin Biopharm, a joint-venture active in hemodialysis, to Baxter Corporation. This transaction totaling US $5.0 million allows Axcan to focus on the development and marketing of gastrointestinal drug products.

• *June* – Completion of a US $40.1 million financing in the United States and listing on the NASDAQ National Market under the symbol AXCA. New investors include Investor AB, Perseus-Soros and Special Situations Funds.

- *July* – Approval of **PHOTOFRIN** by the Medical Products Agency of Sweden for the palliative treatment of obstructive esophageal cancer as well as for the palliative treatment of obstructive endobronchial non-small cell lung cancer. **PHOTOFRIN** is also approved by the Italian and Irish Health authorities for similar indications. These new approvals bring to 11 the number of European countries in which **PHOTOFRIN** can be marketed, including France, Finland, Germany, the Netherlands, Portugal and the United Kingdom.
- *July* – Signature of a term-sheet with Grupo Ferrer Internacional, S.A., a Spanish company based in Barcelona, for the potential distribution of **PHOTOFRIN** in Spain, Portugal and Greece as well as in all Central and South American countries. Axcan also benefits from a right of first refusal granted for a five-year period with respect to the distribution of a gastrointestinal product developed or acquired by Grupo Ferrer in Canada and the United States.
- *August* – Following FDA clearance of a new laser developed by Diomed for use with **PHOTOFRIN**, Axcan and Diomed enter into a five-year exclusive development and supply agreement. Diomed will supply Axcan with 630 PDT diode lasers and optical delivery fibers for use in photodynamic therapy (PDT) in conjunction with **PHOTOFRIN**.
- *August* – Appointment of Mr. Michael M. Tarnow, President and CEO of Huntington Venture, LLC and former President and CEO of Merck Frosst Canada, to the Board of Directors of Axcan.
- *August* – Addition of Axcan to the TSE 300 Composite Index comprised of 300 of Canada's largest public companies traded on the Toronto Stock Exchange.
- *September* – Announcement of positive results from Phase III clinical trial on **PHOTOFRIN** in the treatment of high-grade dysplasia associated with Barrett's Esophagus, a relatively common condition that results from prolonged acid reflux.
- *September* – Signing of a licensing agreement with the Children's Hospital Research Foundation, an operating division of Children's Hospital Medical Center of Cincinnati, Ohio, for a series of patented sulfated ursodeoxycholic acid compounds.
- *October* – Appointment of Ms. Liza Page Nelson, Managing Director of Investor Growth Capital, Inc., to the Board of Directors.
- *October* – Announcement of positive final results of the Phase III North American pivotal clinical trial on **HELICIDE**, a bismuth-based single triple capsule for the eradication of *Helicobacter pylori*.
- *October* – Selection of Léon F. Gosselin, Chairman, President and Chief Executive Officer, as Quebec Entrepreneur of the Year in the Health-Care/Life Sciences field in the privately sponsored Entrepreneur of the Year Awards program.
- *November* – Announcement of interim statistical analysis of a Phase II study on the use of **URSO** 250 for the prevention of the recurrence of adenomatous colorectal polyps.

2001 • *January* – Approval, by the FDA, of CANASA mesalamine (5-ASA) suppositories, for the treatment of active ulcerative proctitis.

**Information Available Upon Request**
Additional copies of the Annual Report
Quarterly reports
Annual Information Form
Information circular
Investor information
Press kit

Le rapport annuel d'Axcan Pharma inc. est aussi disponible en français.

*Design: Spirale Design Communications Inc.*

*Corporate section: EuroArt lustre, 100% chloride free*

*Financial section: Astroparche 30% Post-Consumer Recycled Fiber*

AXCAN PHARMA INC.

Printed in Canada


# PRIZES AND AWARDS

Axcan's focus in the specialized gastroenterology field together with its commitment to organizing and sponsoring educational seminars and medical meetings have enabled it to develop and grow its distinctive relationship with specialists. This relationship has, in turn, helped Axcan to gain a better understanding of the needs of gastroenterology patients and physicians and to refine and further develop its products.

This commitment to physicians and support for patients has been rewarding throughout the year, just as the financial performance of Axcan has been.

### Montreal Business Magazine/Montréal Inc.

Axcan is selected as one of the Top 30 small-to-medium-cap publicly traded growth companies in Quebec.

### AASLD – American Association for the Study of Liver Diseases

In recognition of Axcan's extraordinary contribution to the 50th Anniversary Celebration Campaign - 2000.

### American Liver Foundation

In recognition of Axcan's commitment to primary biliary cirrhosis and other liver diseases - June 2000.

### American Liver Foundation

Corporate Leadership Award – Proclamation June 2, 2000.

Outstanding corporate citizenship and contributions of Axcan Scandipharm towards an increased knowledge and understanding of Primary Biliary Cirrhosis (PBC) and other liver diseases.

### Vallée du Richelieu Chamber of Commerce

Grand Richelois Gala

2000 Richelois Excellence for "Exceptional Accomplishments" presented to Léon Gosselin.

### Ernst & Young, La Presse, BMO, Nesbitt-Burns, Canadian Business, Global, TVA

Entrepreneur of the Year 2000 Award – Healthcare/Life Sciences Category presented to Léon Gosselin, Axcan Pharma.

### World Congress of Pediatric Gastroenterology, Hepatology and Nutrition

Outstanding effort and support of the First World Congress of Pediatric Gastroenterology, Hepatology and Nutrition, August 5-9, 2000.

# Board of Directors

*From left to right:*

1 **Léon F. Gosselin**
Chairman, President and Chief Executive Officer,
Axcan Pharma Inc.

2 **Jacques Gauthier**
Business Consultant

3 **David W. Mims**
Executive Vice President and Chief Operating Officer,
Axcan Pharma Inc.

4 **Colin R. Mallet**
Business Consultant

5 **Liza Page Nelson**
Managing Director, Investor Growth Capital, Inc.

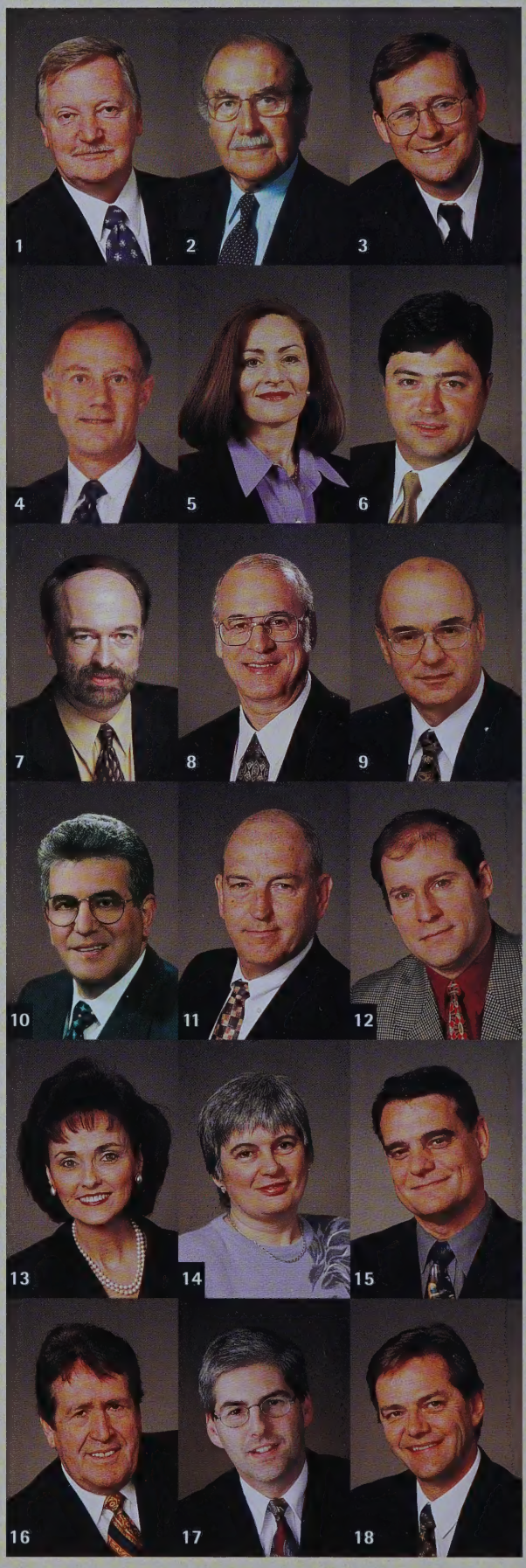
6 **François Painchaud**
Partner, Léger, Robic, Richard g.p. – Law firm and Robic –
Patent and trademark agents
Corporate Secretary

7 **Louis P. Lacasse**
President, Genechem Venture Fund, l.p

8 **Dr. Claude Sauriol**
Retired

9 **Jean Sauriol**
President and Chief Executive Officer
Althin Biopharm Inc.

10 **Michael M. Tarnow**
President and Chief Executive Officer, Huntington Venture, LLC




# Management

1 **Léon F. Gosselin**
President and Chief Executive Officer

3 **David W. Mims**
Executive Vice President and Chief Operating Officer

11 **John R. (Bob) Booth**
President and General Manager, Axcan Scandipharm Inc.

12 **Dr. Patrick Colin**
Vice President, Clinical Research

13 **Martha Donze**
Vice President, Corporate Administration

14 **Dr. France Guay**
Vice President, Development and Quality Control

15 **Patrick L. McLean**
Vice President, General Manager, Canada and Europe

16 **Dr. François Martin**
Senior Vice President, Scientific Affairs

17 **Jocelyn Pelchat**
Vice President, Business Development

18 **Jean Vézina**
Vice President, Finance and Chief Financial Officer

# Supplementary Information for Investors

HEAD OFFICE

**AXCAN PHARMA INC.**
597 Laurier Blvd.
Mont Saint-Hilaire, Quebec
Canada J3H 6C4
Tel.: (450) 467-5138
Fax: (450) 464-9979
www.axcan.com

SUBSIDIARIES AND JOINT-VENTURES (% OF OWNERSHIP)

**AXCAN SCANDIPHARM INC. (100%)**
22 Inverness Center Parkway
Birmingham, Alabama
U.S.A. 35242
Tel.: (205) 991-8085
Fax: (205) 991-8176
www.axcanscandipharm.com

**BONNE SANTÉ SP. Z O. O. AND CZET PHARMA INC.** (50%)
UI. Belwederska 26/30
00-585 Warsaw
Poland
Tel.: 0-11-48-22-682-2501
Fax: 0-11-48-22-840-1986
E-mail: czet@ikp.atm.com.pl

**Investor Relations**
Shareholders, analysts, investors, media and future stockholders who desire more information on Axcan Pharma may contact:
**ISABELLE ADJAHI**
Director, Investor Relations
iadjahi@axcan.com
(450) 467-5138 ext. 292

**Axcan on the Internet**
Axcan's internet address is www.axcan.com, which provides information on the company, and is regularly updated. This information includes press releases, stock market information, quarterly and annual reports. It also includes product information, conference updates and career opportunities with our company.

**Auditors**
**RAYMOND, CHABOT, GRANT, THORNTON**
National Bank Tower
600 de la Gauchetière Street West
Suite 1900
Montreal, Quebec
Canada H3B 4L8
Tel. : (514) 878-2691
Fax : (514) 878-2127

**Transfer agents and registrars**
Stockholders seeking information or help regarding share information may contact:

**COMPUTERSHARE INVESTOR SERVICES**
1800 McGill College Avenue
Montreal, Quebec
Canada H3A 3K9
Tel.: (514) 982-7555
Fax: (514) 982-7580

**AMERICAN SECURITIES TRANSFER & TRUST INC.**
12039 W. Alameda Parkway
Suite Z-2
Lakewood, Colorado 80228
USA
Tel: (303) 984-4100
Fax: (303)-984-4110

**Listings**
Axcan Pharma is listed on the Toronto Stock Exchange under the symbol AXP and on the NASDAQ National Market under the symbol AXCA.
Shares outstanding as of September 30, 2000: 34,506,254

**Annual Meeting of Shareholders**
**February 22, 2001, 11:00 A.M.**
Montreal Exchange
800 Square Victoria
4th floor
Montreal, Quebec
Canada H4Z 1A9

**Fiscal Calendar**
Axcan's fiscal year ends September 30. The annual report is available in January, with quarterly reports in February, May and August.